FINANCIAL TIMES

Dark matter

Machos, wimps and black holes

Technology, Page 12

LucasVarity

How 160 executives fought for 100 jobs?

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India's economy

Cyclical slowdown or structural drag?

Page 5

Today's surveys

Biotechnology, Global Custody, Italian Finance

Separate sections, pages 27-30

World Business Newspaper http://www.FT.com TUESDAY NOVEMBER 26 1996

Five airlines drop limited liability for passenger claims

The European airlines, KLM, SAS, Swissair, Austrian Airlines and Finnair, are to accept unlimited liability for accidents in which passengers are injured or killed, doing away with the 1929 Warsaw Convention principle of limiting liability. The move pre-empts implementation of a deal negotiated by the International Air Transportation Association. It also means carriers in Europe and the rest of the world will be catching up with Japanese airlines, which cancelled liability limits in 1992.

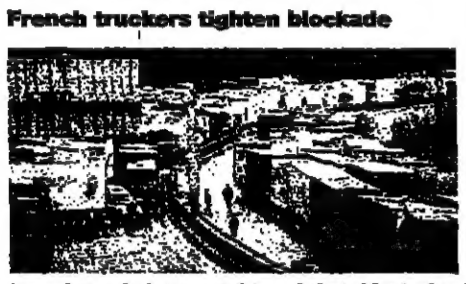
Tsarist bonds compensation predicted: Trading in Tsarist Russian bonds was suspended in Paris amid speculation that a compensation agreement is close for French investors who have received no payment since the Bolshevik Revolution in 1917. Page 19

Salvesen to demerge hire business: Christian Salvesen unveiled long-awaited plans to demerge its Aggreko hire business and distribute £150m ($253.5m) to shareholders. The move will leave Salvesen as a specialist haulage and distribution business, with a food processing arm. Page 19; Lex, Page 25

British farmers urge cattle cull: The British government was pressed by farmers' unions to hold a rapid cull of cattle most likely to develop bovine spongiform encephalopathy, even at the risk that it might not lead to a lifting of the beef export ban. Page 10; Observer, Page 17

Trial sought for Italian PM: An Italian magistrate recommended that prime minister Romano Prodi be tried for alleged abuse of office during his chairmanship of state industrial holding company Iri. Page 4

French truckers tighten blockade



French truck drivers tightened their blockade of main roads and petrol depots (above). With the Channel tunnel disabled by fire, some 200 UK truck drivers were stranded at Calais by the week-long protest, while five crossing points on the Franco-German border were blocked. Page 18; Eurotunnel shares depressed, Page 10; Editorial Comment, Page 17

Talks aim to bolster germ warfare ban: Nearly 140 countries began a two-week meeting in Geneva aimed at strengthening a ban on biological weapons, amid warnings that the risks of germ warfare were increasing. Page 5

Japanese governor quits: Japan's series of corruption scandals involving public officials claimed the first prefectural governor to resign over allegations of misuse of public money. Page 6

EU and South Korea in telecoms deal: The European Union and South Korea agreed to throw open their telecommunications equipment markets to each other's suppliers. Page 6

Suez Canal to cut prices: The Suez Canal is to give discounts to certain oil tankers because of increasing competition from oil pipelines and other shipping routes. Page 6

Hollywood may desert UK: Hollywood studios may be tempted to reduce their investments in film production in the UK because of the recent weakening of the dollar against the pound, a report shows. Page 10

Three quit ISL: Three senior executives resigned from ISL, one of the world's leading sports marketing companies, in a move that threatens to plunge into fresh turmoil the handling of World Cup football contracts. Page 18

Newspapers turn to grass: Six US newspapers, including the Los Angeles Times, carried out successful trials of newsprint made partly from rice straw and grass. Page 19

The Budget on the Internet: As soon as the British chancellor sits down this afternoon, the Financial Times' Internet site www.FT.com begins coverage of the UK Budget, with reaction and analysis expanded through the evening.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,513.50	(+41.74)
NASDAQ Composite	1,279.89	(+5.53)
Europe and Far East		
CAC40	2,277.14	(+21.67)
DAX	2,799.19	(+35.50)
FTSE 100	4,054.6	(+35.9)
Nikkei	21,293.57	(+77.46)

US LUNCHTIME RATES

Federal Funds	5 5/16%
3-mth Treas Bills: Yld	5.142%
Long Bond	101 7/8
Yield	6.398%

OTHER RATES

UK: 3-mo Interbank	6 5/16%	(6 3/8%)
UK: 10 yr Gilt	100 1/2	(100 11/32)
France: 10 yr OAT	105.04	(105.00)
Germany: 10 yr Bund	103.11	(103.01)
Japan: 10 yr JGB	102.6807	(102.720)

NORTH SEA OIL (Argus)

Brent Dated	$22.88	(23.74)

GOLD

New York: Comex	$374.5	(376.3)
London: close	$375.0	(376.85)

DOLLAR

New York: lunchtime		
£	1.672	
DM	1.52075	
FFr	5.1495	
SFr	1.285	
Y	112.7	
London:		
£	1.6725	(1.6812)
DM	1.5192	(1.5023)
FFr	5.1423	(5.093)
SFr	1.2828	(1.2669)
Y	112.5	(111.225)
Tokyo close:	Y 111.80	

STERLING

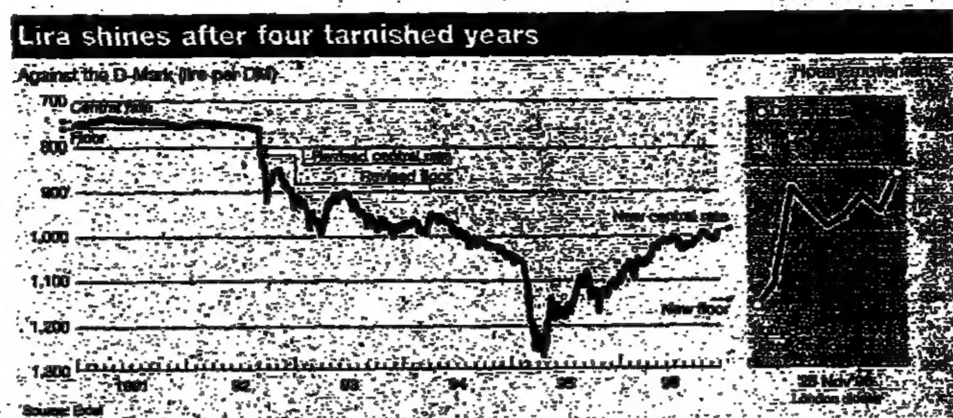
DM	2.5412	(2.5255)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr250	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira135	Spain	Pta250
Denmark	DKr23	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3300	Oman	OR1.75	Switz	SFr3.70
Estonia	Ekr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM15.00	Jordan	JD1.75	Poland	Z6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (mainland)	Tukey	L120,000	
Germany	DM4.00	Lebanon	LL3500		E£365	UAE	Dh13.00

Vote of confidence in currency's ability to sustain parity for several months

Lira rises on ERM return

By Simon Kuper and Richard Adams in London



The lira rose on its return to the European exchange rate mechanism yesterday. Foreign exchange traders decided Italy could sustain its currency at about its new central parity rate of L990, for several months.

The parity rate was agreed on Sunday night in talks involving European Union ministers and central bankers in Brussels.

However, currency strategists said yesterday that Italy probably could not keep the lira within a fluctuation band of 2.25 per cent against the D-Mark for two years. If it cannot, this would further jeopardise the country's chances of participating in the first stage of European monetary union. The Maastricht treaty says states wanting to participate must maintain "a stable exchange rate" for two years before Emu.

The lira yesterday closed in London at L989.8 to the D-Mark, L9.4 higher than Friday's close. The market had expected the currency to rejoin the mechanism at about L1,000 to the D-Mark.

The French franc also strengthened because the lira's re-entry came at a rate stronger than the markets had expected. The French government had been under pressure from French politicians for a franc devaluation to lift the economy. But traders decided that with a stronger lira France would now be under less pressure to devalue its currency. The franc firmed from FFr3.391 against the D-Mark to FFr3.384 in London yesterday.

The lira has depreciated about 30 per cent since speculative attacks forced it and sterling out of the ERM in September 1992. Its central parity was then L802.5 to the D-Mark.

Currency strategists said they expected the Italian government to try to keep the lira within a fluctuation band of about 2.25 per cent against the D-Mark, rather than the 15 per cent band officially agreed.

Mr Joe Prendergast, currency strategist at Merrill Lynch in London, said: "Every ERM-participating central bank and authority has been attempting to keep their currency in a band close to 2.25 per cent against the D-Mark. If you are outside that band, there are definitely questions raised about whether you can enter Emu."

Most traders think the lira's re-entry has made it more likely that the traditionally weak Italian currency will be part of the first round of Emu. This raises the chances that the euro will be significantly weaker than the D-Mark. The dollar and sterling, seen by traders as safe havens from Emu, therefore gained against the D-Mark. The dollar climbed 1.7 pfennigs to close in London at DM1.519 while sterling rose 1.7 pfennigs to DM2.542.

Italian government bond futures on Liffe, the London futures and options exchange, initially soared to 128.70, up 0.78 from Friday's close. But news that magistrates had called for Mr Romano Prodi, the Italian prime minister, to be charged over his involvement with IRI, the state holding company, hit the December contract price, which settled at 128.08.

Background to talks, Page 2
The laurels must wait, Page 17
Lex, Page 18
Bonds, Page 26

Russians take over control of telecoms investment

By Nicholas Denton in London and John Thornhill in Moscow

Businessmen close to Russian president Boris Yeltsin have taken control of the privatisation of the country's telecommunications sector as the backlash against foreign investment gathers momentum.

In an announcement due today, the Russian government will terminate the work of the western consortium led by NM Rothschild, which was to have led to a $1bn public offering of the state's telecoms share holdings.

It will be replaced by a Russian grouping believed to be led by Mr Vladimir Gussinsky's Most group and Mr Peter Aven's Alfa Bank, two of the largest financial contributors to Mr Yeltsin's re-election campaign.

Most and Alfa Bank have outlined a purely domestic transaction in which they are expected to be not only advisers but substantial investors.

The Russian government will say the scheme is "preferable in investment and national security terms".

But western investment bankers warn it will cramp Russia's underdeveloped telecoms sector and reinforce the grip of the seven financial combines which are estimated to control about half of the Russian economy.

The World Bank, which had been financing advisory work on telecoms sector out of a $90m loan to the Russian government to promote privatisation, said it would cut funding in the next fortnight unless President Yeltsin issued a decree liberalising the telecoms market.

A World Bank official warned of an abuse of market power by the telecoms giant which the Russian government plans to create before privatisation by merging its holding in long-distance operator Rostelecom with Svyazinvest. Svyazinvest, the

Continued on Page 18

Bill Clinton and Philippines leader Fidel Ramos in traditional dress before the Apec summit in Manila. Report, Page 18 Reuter

Top Swedish insurer's merger plan in doubt

Government attacks move to link up with mortgage bank

By Greg McIvor in Stockholm

A proposed merger between Skandia, Scandinavia's largest insurer, and Statshypotek, Sweden's biggest mortgage bank, was in doubt last night after the Swedish government, Statshypotek's largest shareholder, strongly criticised the deal and expressed no confidence in its board.

The planned tie-up, announced yesterday, is the opening round of a widely expected restructuring of the Nordic banking and insurance sector. The all-share deal would create the biggest financial services group in the region, with total assets of around SKr500bn ($76bn) and a market value of SKr45bn.

But the Swedish government, which has been planning to sell the 34 per cent stake it owns in Statshypotek, accused the group's board of going behind its back. It indicated it would proceed with plans to auction its holding to the highest bidder.

Mr Erik Asbrink, finance minister, said a number of parties remained interested in Statshypotek and the government would not exclude them. It was "most remarkable" that Statshypotek's directors negotiated with Skandia without the government's knowledge.

Mr Gösta Renell, Statshypotek chairman, insisted the deal did not prevent the government auctioning its holding.

Under the deal, Skandia offered 10 new A shares and 82 new B shares in return for every 11 Statshypotek A shares and 95 B shares.

Skandia's shares fell SKr11.50 to SKr197.00, reflecting investor misgivings about the strategic benefit of it acquiring a mortgage bank in a stagnant market. Statshypotek shares rose SKr7 to SKr203.

Pressure for rationalisation in the Scandinavian financial services sector has grown in the wake of deregulation, mounting competition and the sector's recovery from a deep loan loss crisis in the early 1990s. Statshypotek has 30 per cent of the Swedish mortgage market but has been squeezed by competition and a lack of growth. Profitability in Skandia's core Nordic operations has also declined, while its savings-linked products have enjoyed strong growth, especially in the US and UK.

Mr Ian McEwen banking analyst at Lehman Brothers in London, said the deal was probably the best Statshypotek shareholders would get. The Skandia offer values Statshypotek at almost SKr22bn,

Continued on Page 18
Skandia pre-empts shake-out, Page 20; Lex, Page 18

Daiwa will spend Y120bn to clear unit's bad loans

By William Dawkins in Tokyo

Daiwa Securities, Japan's second largest stockbroker, is to inject Y120bn ($1.1bn) of new capital into Daiwa Finance to allow the ailing affiliate to write off bad property-related loans.

Daiwa is the second top Japanese stockbroker to write off the non-performing assets of a lending affiliate in the past two months. Nomura Securities, the industry leader, announced in September it would pump Y371bn into its non-bank financial unit, Nomura Finance. It took the bail-out as an extraordinary charge, forcing Nomura Securities to report a net loss in the six months to September.

"With the financial assistance to Daiwa Finance, we will have almost finished writing off our bad debts," a senior Daiwa Securities official said.

Daiwa's decision was widely expected in Tokyo financial circles. Analysts expect the two other big brokers, Nikko Securities and Yamaichi Securities, to consider following suit to clear up large asset problems at their own non-bank affiliates.

The Daiwa and Nomura affiliates got into trouble by lending aggressively to property developers when land prices were rising fast in the late 1980s. Land prices went into a steep dive in 1991, with prices falling on average by 60 per cent since then. Many of those property developers are now unable to repay the loans because of the collapse in the value of their properties.

Daiwa Finance, in which the securities company has a 5 per cent stake, will use the cash to write off all but Y20bn of its Y140bn of bad debts. They represent 35 per cent of Daiwa Finance's Y400bn loan book.

Mr Hiromitsu Sogame, Daiwa Securities' vice-president, said the group would follow Nomura's example in taking the capital injection to Daiwa Finance as an extraordinary loss in the year to next March. In addition, Daiwa Finance plans to raise Y15bn early next year in a share placing to improve its capital to risk assets ratio, currently languishing well below the internationally approved norm at 6.9 per cent.

Separately, Daiwa Securities yesterday announced that its consolidated recurring profits – before tax and extraordinary items – rose 6.3 per cent to Y32.7bn in the six months to the end of September. Operating revenues rose at the same time by 27.6 per cent to Y301.5bn. Mr Sogame did not give an estimate of Daiwa Securities' full-year profits, but said the group planned to maintain the annual dividend at Y8 per share.

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LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Lionel Barber tells the story – and the moral – of a weekend of secret European diplomacy

The quest for Emu: Italy home but not dry

Preparing for Emu

Around 6 o'clock on Sunday evening, talks on the re-entry of the Italian lira into the European exchange rate mechanism looked as if they were going badly wrong.

Twelve hours of negotiations in Brussels stretching over two days had produced a stalemate. The Italian government was still refusing to budge on its opening bid for a re-entry level of between L1,000 to L1,010 to the D-Mark.

The Italian terms were remarkably close to the parity of L980 to L990 sought by the bulk of Italy's EU partners; but a majority of EU central bank governors were opposed. Mr Hans Tietmeyer, president of the Bundesbank, was leading the charge for a more expensive lira.

With the financial markets in the Far East due to open at midnight, one or two faint spirits began to wonder if there was a chance that the informal deadline for an agreement might slip, leaving the lira floating in a sea of political discontent.

"Things had become very difficult," said an EU monetary official. "The Italians had made the value of the lira into a matter of prestige."

Several dozen finance ministers, central bankers and treasury officials took part in the weekend bargaining in Brussels, but in the end it came down to a battle of wills between two men: Mr Tietmeyer, the towering apostle of price stability and monetary orthodoxy, and Mr Carlo Azeglio Ciampi, the diminutive 75-year-old Italian treasury minister whose craftiness is legendary.

Mr Ciampi had staked his reputation on an early return to the ERM, having served as central bank governor in September 1992 when the lira was forced out of the exchange rate grid along with sterling.

Like Mr Tietmeyer, Mr Ciampi had a far bigger agenda. Both saw the conduct and outcome of the negotiations as a prelude to the debate on whether Italy can realistically hope to join the first group of EU countries launching economic and monetary union in 1999.

For Mr Ciampi, a favourable response to Italy's demands would signal political support for a "broad" monetary union going beyond the "core" grouping built around France and Germany. Entering the ERM two years ahead of the planned launch of the single currency would enable Italy to meet one of the Maastricht criteria.

For Mr Tietmeyer, it was vital to show that no member state government could expect to dictate the terms of entry into the ERM. Memories were still fresh of how the British government unilaterally set a rate of DM2.95 to the pound in 1990, only to crash out two years later. And Mr Tietmeyer had a broader message: economic fundamentals must count for more than political calculations in the Emu project.

The consensus among EU diplomats and monetary officials yesterday was that the re-entry level of L990 to the D-Mark looks like a coup for Italy's centre-left government led by Mr Romano Prodi. A closer look confirms this view.

Timing is everything in the currency markets. Mr Prodi and his colleagues debated for several weeks when it would be best to re-enter the ERM. Pressure accelerated once the chamber of deputies approved the 1997 budget which aims to bring the public deficit to close to 3 per cent of gross domestic product, the target set by the Maastricht treaty. With the government's announcement of a "Euro-tax" to raise extra revenue from the public, the final piece in the jigsaw appeared to fall into place.

The Prodi government's decision to call for a weekend meeting of the EU's monetary committee – the secretive panel of national treasury officials and central bankers – was taken after the close of markets in Europe on Friday.

But several officials say the subsequent failure to reach agreement during nearly nine hours of talks reflects the degree to which Rome may have miscalculated in the early stage of negotiations.

On Friday, Mr Ciampi was in Frankfurt attending a banking conference where he sounded out central bank governors and ministers. At this point, the Italian knew he had secured support from France and Germany for an entry level of around L1,000, according to Italian officials.

This followed intensive contacts between Rome and Paris, as well as Rome and Bonn. One crucial session took place in Naples between Mr Prodi and France's President Jacques Chirac who softened his attacks on the weak lira.

So, shortly after 4pm on Friday, Mr Prodi leaked news of the monetary committee meeting and announced that the lira would be rejoining the ERM within hours, if not days.

It was then the first sign of trouble appeared. Mr Alexandre Lamfalussy, president of the European Monetary Institute, the precursor of the future European central bank, informed the Italian government that the bulk of his membership favoured a parity of L950 to L960.

Around 3pm on Saturday afternoon, members of the monetary committee gathered. The Italians refused to budge from their opening gambit, saying they had no mandate from Rome.

After fruitless efforts to contact leaders in national capitals on Saturday night, Sir Nigel Wicks, the committee chairman, declared a stalemate. There was no alternative but to convene a 'meeting' of EU finance ministers and central bank governors the next day.

Negotiations began just after 3pm on Sunday afternoon. Officials noted that it was the first such high-level gathering on a currency realignment since August 1993 when EU ministers and central bankers had agreed to widen the ERM's fluctuation bands to 15 per cent either way of the central rate in response to a wave of currency speculation.

The talks centred on three participants: Mr Ciampi, Mr Tietmeyer, and Mr Hugh Coveney, the Irish deputy finance minister.

Mr Ciampi, speaking from a few handwritten notes, turned in a masterful performance. He argued that Italy's high short-term interest rate had artificially boosted the value of the lira. He defended the Bank of Italy's repurchasing interventions over the past few weeks as a means of replenishing its reserves. And he pointed out that the lira had been trading in the market consistently above L1,000 for the past few months.

"Ciampi gave the performance of his life," says an Italian diplomat. "If any other European minister had behaved like that, he would have been thrown out of the building."

Mr Tietmeyer complained about the Italian government's pre-emptive strike on the re-entry rate and the Bank of Italy's interventions. But as one participant pointed out, the differences had in effect narrowed to a range of L980 to L990 – or little more than L10 to L20 higher than the Italian government's demands.

The first sign of progress came just before 7pm when Mr Eddie George, governor of the Bank of England, left the negotiations. Without offering any details, Mr George expressed confidence that an agreement would be ready before markets opened in the Far East.

At this point, Mr Ciampi contacted Mr Prodi who was spending the weekend in his home town of Bologna. The two men decided it was time to strike a deal.

A spokesman for Mr Prodi, noting that Italy's partners clearly believed that the "process of adjustment" was going better than appeared in the eyes of Italian public opinion, said one option for the government was a "hypothetical" value of L980-L990 to the D-Mark. Within half an hour, the deal was struck at L990.

One of the first lessons to be drawn from these events is that the dynamics of monetary diplomacy in Europe are shifting as a result of the structural changes in the European economy characterised by low inflation and high unemployment.

In the past, the Bundesbank has often pressed its partners to devalue their currencies against the D-Mark more than they wished. But at the weekend, Mr Tietmeyer, conscious of the competitive threat to German industry posed by an undervalued lira, argued for a revaluation of the lira beyond the level prevailing in the market.

"Emminger [Otmar Emminger, a former head of the Bundesbank] would be spinning in his grave," said one monetary official.

A second lesson is that the Franco-Italian consensus on the value of the lira suggests that the Paris government has calculated that it is safer to have Italy inside the ERM than outside.

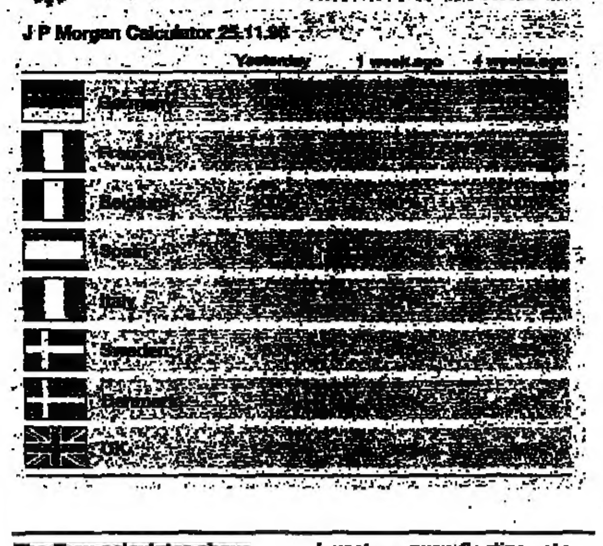
Third, the weekend events leave the German-Italian dilemma over Emu unresolved. Bonn may have been relaxed about the entry terms for the lira into the ERM, but this does not set a precedent regarding the entry terms for Emu. Italy has achieved an important first step, but much more needs to be done before it stands a chance of entering monetary union in 1999.

Additional reporting by Peter Norman in Bonn and Robert Graham in Rome

■ Ciampi: a dream fulfilled

Emu: who's going to make it

J P Morgan Calculator 25.11.96



The Emu calculator above provides a weekly snapshot of the probabilities which the financial markets place on selected countries being willing and able to join Germany in forming a single European currency in 1999.

Currency strategists at investment bank J P Morgan calculate the probabilities which the markets place on a country joining the single currency from the interest rate swaps market, in which investors swap floating rate interest payments on an investment for fixed-rate ones.

The probability which the markets place on France joining Germany in Emu can be calculated by looking at the current difference between French franc and D-Mark swap rates,and comparing it to the difference you would expect to see if Emu were postponed indefinitely.

■ Tietmeyer: stern words

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Rome told of thorny Emu path

By Our Foreign Staff

Italy's return to the Exchange Rate Mechanism was yesterday welcomed in Paris and Bonn, but the Germans were quick to warn that Rome had much to do before it could be sure of participating in the final stage of European economic and monetary union.

Two of the three EU countries still outside the ERM, Britain and Sweden, said Italy's return would not affect their decision to stay out. Both believe membership of the ERM should not and will not be a decisive condition for entry to Emu.

There was no official reaction from Greece, the other country outside the system, but observers believe Italy's return is viewed in Athens with trepidation as it signals Greece might be the only Mediterranean country to be excluded from the single currency in 1999.

Mr Theo Waigel, Germany's finance minister, said the German government would only enter the final stage of Emu with countries which met in full the convergence criteria of the Maastricht Treaty and which held out the promise of enduring economic stability. His position was echoed by Mr Klaus Kinkel, the foreign minister, who insisted there would be no dilution of the entry criteria when, at the start of 1998, decisions were taken on which countries should be among the first Emu members.

Mr Waigel said the credibility in financial markets of Italy's convergence policy would be increased by rejoining the ERM. But Italy needed to implement its policy of budget consolidation in a determined manner and he stressed there was no automatic right to join the final stage of Emu.

In France, government and industry welcomed the lira's re-entry more out of relief at seeing Italy back within the disciplines of the currency grid than at the lira's relatively strong rate of re-entry.

France, which has persistently and publicly complained over the past four years of the damage wrought by a cheap lira on French trade, had earlier championed a rate of around L1,000 to the D-Mark. Mr Jean Arthuis, the finance minister, was therefore all the happier to welcome the slightly stronger, agreed rate for the lira of 990 to the D-Mark as "fair, sustainable and durable".

Mr Romano Prodi, the Italian prime minister, was careful yesterday to reassure his own business community, which had been nervous that the new central band for the lira would have a negative impact on exports. "It was a very well studied and balanced compromise which will not damage Italian industry," he told industrialists in the Veneto, one of the areas which has benefited most from a cheap lira these past four years.

Mr Arthuis chose to stress that Italy's return increased the ERM's membership to 12 currencies and enlarged "the circle of [currency] stability".

The Patronat employers federation echoed this in a statement, saying it "forcefully approved" the Italian move, which constituted "an essential step towards a return to exchange rate equilibrium in Europe".

The German government took Italy's decision as clear confirmation of Bonn's view that membership of the ERM is an essential pre-condition for full Emu membership, thus serving notice on Sweden and the UK that they must also join if they want to be Emu members from 1999.

Mr Erik Asbrink, Sweden's finance minister, said Italy's entry would "not influence Sweden's decision on ERM participation". A UK Treasury official said: "Our position is clear: we do not intend to join the ERM and we cannot be forced to join."

In Greece Mr Yannos Papandoniou, the national economy and finance minister, said yesterday he was preparing the "toughest budget in 15 years" to ensure the country was ready for Emu.

EMS parity grid

Bilateral central rates and buying rates in the ems exchange rate mechanism from 25 November 1996

		BFr/LFr100=	DKr100=	FFr100=	Dm100=	I£1=	Dfl100=	Pesc100=	Spta100=	Asch100=	Fmar100=	IL100=
Belgium/Lux	S		627.880	[illegible]	[illegible]	[illegible]	[illegible]	23.3...	[illegible]	[illegible]	[illegible]	[illegible]
B -BFr/LFr	C		540.723	[illegible]	[illegible]	[illegible]	[illegible]	20.1216	[illegible]	[illegible]	[illegible]	[illegible]
BFr/LFr	B		465.665	[illegible]	[illegible]	[illegible]	[illegible]	17.3285	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	S	21.4747	-	132.066	442.968	10.6792	393.105	4.32100	5.20640	62.9561	145.699	4.47400
	C	18.4938	-	113.732	381.443	9.19676	338.537	3.72119	4.48376	54.2170	125.474	3.85294
D.Kr	B	15.9266	-	97.9430	328.461	7.92014	291.544	3.20460	3.86140	46.6910	108.057	3.31610
France	S	16.8800	102.100	[illegible]	[illegible]	[illegible]	[illegible]	3.79920	4.55780	[illegible]	[illegible]	[illegible]
	C	16.2608	87.9257	[illegible]	[illegible]	[illegible]	[illegible]	3.27188	3.94237	[illegible]	[illegible]	[illegible]
FFr	B	14.0050	75.7200	[illegible]	[illegible]	[illegible]	[illegible]	2.81770	3.39510	[illegible]	[illegible]	[illegible]
Germany	S	5.63000	30.4450	34.6250	-	2.80000	(103.058)*	1.13280	1.36500	16.5050	38.1970	1.1729
	C	4.84837	26.2162	29.8164	-	2.41105	88.7526	0.975561	1.17548	14.2136	32.8948	1.0101
Dm	B	4.17500	22.5750	25.6750	-	2.07600	(76.4326)*	0.840140	1.01230	12.2410	28.3280	0.8699
Ireland	S	2.33503	12.6261	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	C	2.01090	10.8734	[illegible]	[illegible]		[illegible]	0.404620	[illegible]	[illegible]	[illegible]	[illegible]
I£	B	1.73176	9.36403	[illegible]	[illegible]		[illegible]	[illegible]	0.418859	[illegible]	[illegible]	[illegible]
Netherlands	S	6.34340	34.3002	39.0091	(130.834)*	3.15450	-	1.27637	1.53793	18.5963	43.0378	1.32156
	C	5.46286	29.5389	33.5953	112.6730	2.71662	-	1.09920	1.32445	16.0149	37.0636	1.13811
DFl	B	4.70454	25.4385	28.9381	(97.0325)*	2.33952	-	0.946611	1.14060	13.7918	31.9187	0.980132
Portugal	S	577.090	3120.50	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]
	C	496.984	2687.21	[illegible]	[illegible]	[illegible]	9097.55	-	[illegible]	[illegible]	[illegible]	[illegible]
PEsc	B	428.000	2314.30	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]
Spain	S	478.944	2589.80	2945.40	9878.50	238.175	8767.30	96.3670	-	1404.10	3249.50	99.7800
	C	412.461	2230.27	2536.54	8507.18	205.113	7550.30	82.9927	-	1209.18	2798.41	85.9311
SPta	B	355.206	1920.70	2184.40	7326.00	176.641	6502.20	71.4690	-	1041.30	2410.00	74.0000
Austria	S	39.6809	214.174	[illegible]	[illegible]	[illegible]	[illegible]	7.91000	[illegible]	-	[illegible]	[illegible]
	C	34.1187	184.444	[illegible]	[illegible]	[illegible]	[illegible]	6.86356	[illegible]	-	[illegible]	[illegible]
ASch	B	29.3757	158.841	[illegible]	[illegible]	[illegible]	[illegible]	5.91086	[illegible]	-	[illegible]	[illegible]
Finland	S	17.1148	92.5438	105.253	353.008	8.51107	313.295	3.44376	4.14938	50.1744	-	3.5670
	C	14.7391	79.6976	90.6422	304.000	7.32960	269.806	2.96570	3.57345	43.2094	-	3.07071
Fmar	B	12.6931	68.6347	78.0597	261.801	6.31217	232.353	2.55402	3.07740	37.2114	-	2.64438
Italy	S	5578.60	30138.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
	C	4799.91	25954.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
IL	B	4133.60	22351.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1002.20	12118.0	28045.0	-

S = Exchange rate at which the central bank of the country in the left hand column will sell currency identified in the row at the top of the table.
C = Bilateral central rate
B = Exchange rate at which the central bank of the country in the left hand column will buy the currency identified in the row at the top of the table.*
These buying and selling rates are not operational. Reflecting a bilateral agreement between the German and Dutch monetary authorities, the following rates apply: Netherlands (100DM: selling 115.2350, buying 110.1675), Germany (100Fl: selling 90.7700, buying 86.78). Notional ECU central rates for the DRA and GBP are 295.269 DRA and 0.793103 GBP respectively, for 1 ECU. Source: Bank of England

Minister backs Eurofighter over Franco-German satellites

Rühe stirs weapons controversy

By Michael Lindemann and Bruce Clark in London

Mr Volker Rühe, Germany's defence minister and a man not known to mince his words, is at the centre of a political and diplomatic tug-of-war over priorities in arms procurement.

He insists, after months of wrangling, that funding for the Eurofighter, the four-nation £40bn ($24bn) military aircraft, is back on track and that Germany's final decision about production investment – the money needed to prepare the factories which will build the aircraft – will be made by next March.

But, in a continuing argument with Chancellor Helmut Kohl, he insists that the beleaguered aircraft is so important that there is no room for an ambitious Franco-German satellite project which Mr Kohl has agreed with President Jacques Chirac.

"[Eurofighter] is far more important for me as defence minister than the satellites," he said in an interview with the Financial Times last week. "There is no money for that in the budget."

Analysts, however, are still sceptical that Mr Rühe will be able to pull off Eurofighter financing and find an acceptable compromise on the satellites. Failure to do either would represent a considerable setback to efforts to consolidate the European defence industry so the stakes are high.

"He can get out of the satellite project, but only at a very substantial loss," says Mr Sash Tusa, a defence analyst at UBS. "It will upset the French more than almost anything else."

Moreover, analysts say that Eurofighter financing is not going to be any easier next spring than it was two weeks ago when money could not be found in the defence budget. Meeting the Maastricht criteria for a single currency will guarantee continuing problems.

Mr Heinz Schulte, a defence analyst in Bonn, points out also that the political calendar is likely to interfere with Mr Rühe's plans.

By next spring, the candidates for the October 1998 elections will start jockeying for position and the Eurofighter will once again become intensely political. "Prospective candidates will start to be asked whether they want more kindergarten places or a new fighter aircraft, and you can imagine what the answer will be," Mr Schulte says.

Making Eurofighter work, however, is a vital step towards a European arms industry and Mr Rühe's broader vision of a reformed Nato which includes a well defined European pillar.

The minister confirmed his support for the French view that Nato's south European command – hitherto headed by a US officer – ought to have a European in charge. Mr Rühe added that Britain, which has described the French position as unrealistic, should also be supporting Paris in a spirit of European solidarity.

"It's not a question of getting a French admiral in there, but of a new Nato with a better balance," Mr Rühe said.

However, a meeting of Nato defence chiefs which ended in Brussels last week failed to bridge the gap between the US and France. The US is understood to have rejected a French compromise proposal under which the Naples command would rotate between Europeans and Americans.

This makes it unlikely that Nato's command structure reform – providing terms on which France and Spain can integrate their forces into the alliance – will be agreed this year, as Paris had originally hoped.

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Thousands take to streets over Serbian polls

By Laura Silber in Belgrade

The Serbian opposition yesterday mustered 100,000 protesters on the streets of Belgrade in the biggest demonstration so far against attempts by President Slobodan Milosevic to annul its victory in local elections.

Angered by the latest court decision, which cancelled an opposition win in Belgrade, demonstrators of all ages and backgrounds brought the capital to a standstill, chanting "Down with the red bandits", "We won't give up our victory", and "Slobo, Saddam". The crowd streamed past the symbols of Mr Milosevic's regime, hurling eggs at his office, Television Serbia, and the Serbian parliament.

"People are defending their civil rights. It doesn't even mean they support the opposition: now they are defending their dignity," said Mr Zoran Djindjic, president of the opposition Democratic party, who could have been Belgrade's first non-Communist mayor since the second world war.

Acting on complaints by Mr Milosevic's Socialists, a court reversed an official ruling which gave the opposition 60 of 110 seats in Belgrade's city council. Opposition leaders say they will boycott a run-off in municipalities previously confirmed as won by their coalition Zajedno (Together).

Thousands of students went on strike, marching down the capital's main street to join the protest.

The landslide opposition victory in 15 of Serbia's 18 biggest towns on November 17 took Mr Milosevic's Socialist regime and western governments by surprise. Once seen abroad as the man most responsible for the war in Bosnia, Mr Milosevic is now a pillar of the Dayton peace agreement. Opposition leaders accuse the west of supporting him.

Demonstrating Belgrade university students wave their report cards as part of a protest at the annulling of local poll results AP

Mr Richard Miles, the US chargé d'affaires in Belgrade, yesterday insisted the US was maintaining a tough stance.

"I have heard a lot in recent days about... exerting more direct pressure on President Milosevic and I would just note that already the US does not have normal diplomatic relations with Yugoslavia, that is to say Serbia and Montenegro," he told Radio B-92, the only independent station in Belgrade.

"The US has imposed and is maintaining the so-called outer wall of sanctions," he said, referring to conditions agreed in Dayton which Yugoslavia must meet before it is allowed to join international organisations and financial institutions.

Diplomats yesterday said the EU was poised to postpone until next month a decision on preferential trade status with Serb-led Yugoslavia.

Belarus president claims mandate

By Matthew Kaminski in Minsk

President Alexander Lukashenko of Belarus yesterday claimed a broad mandate from Sunday's referendum, which his opponents in parliament said was illegitimate and a rigged "farce" to create a dictatorship.

Mr Seymon Sharetsky, parliamentary speaker, said Russian intervention was the only realistic recourse against Mr Lukashenko's plans to hand-pick a new legislature and high court. Parliament, the focus of the small opposition, will meet today. An impeachment motion, put forward by 76 deputies, remains before the constitutional court.

Demonstrations are also expected, but large public protests seem unlikely. Media coverage of the opposition's protest was muted last night and Minsk, the capital, remained quiet. The authorities claimed 5.1m people, or 70.5 per cent of all registered voters, endorsed the president's new constitution in the referendum.

Mr Lukashenko said that the two new houses of parliament and a new constitutional court "will be formed by Christmas". He also moved to split the opposition by inviting 120 current deputies, out of 199, to join the new 110-member lower house.

The upper house of 60 members, stronger than the lower, will be appointed by Mr Lukashenko and regional leaders. The president also gets an extra two years in office.

Informal observers from the European Parliament were not around to monitor Sunday's count but they noted irregularities.

Mr Sharetsky yesterday warned Moscow that the confederation with Belarus proposed under a deal reached earlier this year would bind Russia to a dictatorship.

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EUROPEAN NEWS DIGEST

Gdansk ship aid demanded

Workers at the bankrupt Gdansk shipyard, demanding government loan guarantees to finance the construction of six container vessels, yesterday occupied the local government headquarters building after a protest march through the city.

The yard desperately needs the $100m guarantees to build the vessels for Columbia Ship Management, a Cyprus-based German shipowner. However, Mr Grzegorz Kolodko, the finance minister, is steadfastly refusing to secure the financing, which would come from local banks.

According to the yard, the shipowner has agreed to pay more for the vessels if the guarantees are forthcoming. The original prices failed to cover costs and contributed to the yard's current financial collapse. Completion would provide a chance of saving the yard and its 5,000 employees. *Christopher Bobinski, Warsaw*

E German building setback

The east German construction sector, which until recently was the motor of the region's economy, is heading for a marked downturn, according to research by the Halle Institute for Economic Research (IWH).

Of 300 construction companies in the east, 49 per cent said they were optimistic about future business, against nearly 60 per cent last year. The IWH said the scaling back of federal subsidies was mainly to blame.

In a separate study, the IWH said east Germans remained less mobile than people in the west. Whereas 40.6 per cent of the west German labour force commuted to work in 1995, only 32.3 per cent did so in the east. *Frederick Stüdemann, Berlin*

Leak embarrasses Madrid

The Spanish government, in the process of negotiating its place in a reorganised Nato structure, has been placed in an awkward position by the leaking of a classified alliance document.

The daily El Mundo yesterday published details from the annual "general intelligence estimate", which is circulated among allied governments. It focused on the risk from Libyan medium-range missiles carrying nuclear, chemical or biological warheads which could be produced within the next 10 years. It quoted the document as warning about plans for chemical weapons production at an underground complex at Tarhunah, east of Tripoli.

Nato and Spanish officials declined to comment on the report. Although defence analysts saw nothing surprising in its assessment, publication comes at an embarrassing moment as Spain is about to upgrade its status in Nato. Parliament voted last week to endorse the centre-right government's plan for full integration in the alliance's new military organisation, details of which are still under discussion. *David White, Madrid*

Hungary sets TV bids date

Foreign companies can start bidding for commercial television and radio stations in Hungary from December, a senior media official said yesterday. Two commercial TV and two radio stations are to start broadcasting next September. The primary owner of each will be allowed to hold up to 49 per cent, and the secondary owner up to 25 per cent, of the stations, with a minimum of 26 per cent remaining in Hungarian hands. *AP, Budapest*

Erbakan turns the screw on Turkish media

Intense interest in a bizarre car crash involving a gangster, a top policeman and a government MP has prompted the PM to act, writes **John Barham**

After months of warnings, Turkey's Islamist-led coalition has decided to act against the media, calling a debate today in parliament to discuss tighter regulations.

Mr Şevket Kazan, justice minister, said: "False news must definitely be brought under control. We do not complain if the press reports the news. But we cannot approve of false news. Insults, abuse and derision against the government and judiciary are what concern us. Public order has been upset, individual rights are being crushed underfoot."

Mr Necmettin Erbakan, prime minister, warned within days of taking office last July that he would introduce controls on the anti-Islamist media. But he only acted after intense media interest in a bizarre car accident three weeks ago that threw light on links between the government, the security establishment and rightwing gangsters.

A car carrying a wanted gangster, his girlfriend, a senior policeman and a government MP crashed into a truck. All died except the MP, Mr Sedat Bucak, who belongs to the centre-right True Path party, the Islamists' junior coalition partner.

The media linked Mr Mehmet Ağar, interior minister, to the trio. He resigned. A television channel broadcast a video showing his successor seated next to Mr Abdullah Çatli, the gangster, at a wedding. Reporters found evidence connecting Mr Bucak's bodyguards with the security forces and underworld shootings. Mr Bucak made no effort to hide his friendship with Mr Çatli. He told a television interviewer: "I loved him like a big brother."

The affair cast a darker shadow over Mrs Tansu Çiller, deputy prime minister and the subject of intense media scrutiny. She and her husband Ozer are frequently accused of corruption, although none of the charges has been substantiated. Yesterday, a parliamentary committee (which has a government majority) cleared her of allegations of interfering in Tedaş, the state electricity company.

The government has not announced its plans in detail. Ministers say they want an initial debate before returning with draft legislation for formal discussion.

Observers doubt Mr Kazan's idea of penalising articles that destroy the state's "political and financial honour" will succeed in the face of heavy opposition. Even Mr Rahmi Koç, Turkey's wealthiest businessman, warned: "The moment you fight against the press you fight against democracy."

However, they do expect new rules regulating ownership of media conglomerates and reducing their financial privileges to pass. For instance, spending on advertising would no longer be tax-deductible.

MPs will probably also tighten up on the individual's right of privacy and right of reply.

Relations with the government are not always antagonistic. Mr Haluk Şahin, editor of the Arena TV current affairs programme, says it was the media that "built up Mrs Çiller as a Joan of Arc" when she entered politics in the early 1990s. The media presented her as "our blonde prime minister" and held her up as a symbol of European modernity.

They have boosted rightwing politicians like Mrs Çiller with a steady diet of nationalistic reporting, helping distract attention from Turkey's economic problems. The mainstream press gives little space to journalists questioning the 12-year war against the Kurdistan Workers party. Last year, the newspaper Milliyet fired Mr Ahmet Altan for writing that Turkish ultranationalism might offend Kurds. Journalists from the opposition media risk arrest and even death.

Turkey has 154 rules concerning freedom of expression. It is illegal to criticise the armed forces, the courts or Kemal Atatürk, founder of the secular state. The state broadcasting authority frequently orders television and radio stations off the air for broadcasting reports that embarrass the government.

Why then does Ankara want yet more rules? Cynics say the media barons would be happy to settle down to their old ways if government largesse were forthcoming. Ministers have cut subsidies both as punishment and because their budgets are tighter.

Others think the media, particularly television, have grown too powerful to be manipulated indirectly. Ten years ago, the state TRT channel had a broadcasting monopoly.

Now there are more than 260 local and national television stations.

Mr Şahin reckons today's debate will be inconclusive. The law may not pass, he say, but "the threat of intimidation could continue."

Complicity in abuse of office alleged over food company sale

Call to charge Italian PM

By John Simkins in Milan

The messy break-up of SME, Italy's state-controlled foods company, in 1993-94 returned to haunt Mr Romano Prodi, the prime minister, yesterday when a Rome magistrate asked for him to be charged for complicity in abuse of office over the affair.

For nearly a year magistrates have been investigating the manner in which Iri, the state holding company, sold Cirio Bertolli De Rica (CBD), an oil, canned food and vegetables business, after breaking SME into three parts – CBD, Italgel and GS-Autogrill.

Mr Prodi was chairman of Iri at the time and the indictment request also relates to all members of the board at the time, including the Treasury's representative.

The investigations concern allegations that Iri made late payment concessions to Fisvi, a farm co-operative from Apulia that eventually acquired CBD. According to the magistrate, Fisvi received benefits from the operation, partly involving payment delays, totalling about L14bn ($9m). The inquiries followed a complaint by a small shareholder in CBD.


Prodi: 'I shall clarify everything as always.' Reuter

Mr Prodi said yesterday: "The indictment request certainly does not put my personal honesty at stake. . . . I shall clarify everything as I have always done." The indictment request will now go before a senior judge who will decide whether to send Mr Prodi for trial.

Parliament, however, is in the course of examining changes to the law on abuse of office, which, it has been argued, it is not sufficiently specific.

The piece-by-piece sale of Iri's foods division followed an earlier attempt by Mr Prodi to dispose of it in the 1980s. The privatisation of CBD was particularly tortuous. In July 1993 the Italgel arm of SME was sold to Nestlé, while CBD was put out to tender in the absence of adequate offers for the group.

Although the Anglo-Dutch company Unilever was interested in bidding for the whole group, there was considerable political opposition to a multinational acquiring an important food business when its main target was only CBD's olive oil interests.

In a surprise move Iri accepted an offer from Fisvi, put together to satisfy strong southern agricultural and tomato-growing interests, for 62 per cent of the shares, valued at L310bn.

Fisvi then sold CBD's olive oil interests to Unilever and its weakness was underlined when it formed a joint company with Cragnotti & Partners Capital Investment, led by a financier, Mr Sergio Cragnotti, in order to raise funds to acquire CBD. Cragnotti eventually bought out Fisvi's share and CBD remains in its hands.

New postal proposals test Brussels' nerve

By Neil Buckley in Brussels

The European Commission is facing a test of its determination to open parts of the EU's Ecu59bn ($75bn) postal market to competition, as Germany and France try to steer through a compromise which is far short of original proposals.

Backers of liberalisation are urging Brussels to veto the compromise at a meeting of European Union telecoms ministers on Thursday and to use special powers under the Rome treaty to liberalise the market without member states' agreement. It used the same powers in the telecoms market.

In an attempt to break a long-standing deadlock on postal liberalisation, Germany's minister, Mr Wolfgang Botsch, and his French counterpart, Mr Francois Fillon, met in Paris earlier this month to thrash out a new compromise. That involved Germany, previously an advocate of liberalisation, moving into line with France's caution.

The new plan would postpone any decision on opening up important parts of the postal market until 2001, with no liberalisation possible before 2003. The Commission and states such as the Netherlands and the Scandinavian nations want to stick to original plans to liberalise the sectors in 2001, subject to a ministerial review in 1998.

At stake are the markets for direct mail, such as brochures, catalogues, newspapers and "junk mail", and in-bound cross-border mail.

Since it has already been agreed that member states can retain monopolies for domestic ordinary letters weighing up to 350g, or costing five times a standard stamp, private carriers are pinning their hopes on early access to these other sectors.

The Commission must decide between backing the Franco-German plan, which would then stand a chance of gaining the necessary qualified majority on Thursday, or vetoing it. The latter would destroy any chance of its being adopted as it would then require a unanimous decision by ministers.

If it blocked the compromise, Brussels could adopt officially a notice on how it intends to apply EU competition law to the postal sector. This notice, circulated last year by Mr Karel Van Miert, competition commissioner, says competition should be allowed outside the "reserved" sector of the postal market already agreed. The Commission would use article 90 of the Rome treaty which gives it the power to challenge national monopolies without member states' assent if they are not operating in the public interest.

Industry groups such as EuroCommerce, the European retailing body, the European Mail and Express Services Users' Association and the Federations of European Direct Marketing and European Publishers have united in demands for it to use these powers.

To do so, however, could provoke a clash with France, Belgium, Greece and Portugal, which are strongly opposed to liberalisation.

Portugal to open telecoms by 2000

By Peter Wise in Lisbon

Portugal is to liberalise all telecommunication services by 2000 and set up a second national operator, ending Portugal Telecom's monopoly control of infrastructure and basic telephone services.

Mr João Cravinho, planning minister, said Electricidade de Portugal (EDP), the national power company, and the Caminhos de Ferro Portugueses (CP), the state railway, would be the core of the new fixed-line operator.

Other partners will include Transgás, Portugal's natural gas provider, and Brisa, a motorway operator. The state will control a majority, but private sector companies will be allowed to acquire minority holdings.

The decision means a second big national telecommunications operator will be in place when the Portuguese market is liberalised, making entry by a foreign group more difficult.

EDP, CP and some of the other utilities investing in the new company already operate their own telecommunications and related infrastructure. These could readily be adapted into a second fixed-line network, Mr Cravinho said.

Their customer base and distribution networks would also make it easier to penetrate the telecommunications market and provide a solid foundation for competing with Portugal Telecom.

Mr Cravinho said Portugal would fully liberalise telecommunications on January 1 2000, three years ahead of the EU deadline set for his country, Spain, Greece and Ireland by the European Union. The deadline for other EU countries is 1998.

Portugal has already allowed limited competition in cellular phone, data transmission and paging services. The government also plans to liberalise public call box, telephone directories and some other telecommunication services by 1999.

Geneva conference hears that risks of germ warfare and terrorism are thought to be growing

Talks aim to curb biological weapons

By Frances Williams in Geneva

Representatives from nearly 140 countries yesterday began a two-week meeting in Geneva with the aim of strengthening a global pact banning biological weapons, amid warnings that the risks of germ warfare and terrorism are increasing.

The main focus of the conference, the fourth regular review of the 1972 biological weapons convention, will be the need to negotiate a set of anti-cheating measures to detect and prevent violations. The United Nations treaty, which was the first to ban a whole category of weapons, has no provisions to check compliance.

Negotiators have been working on a verification protocol since 1994 but have failed to agree the scale and scope of measures required. The US and other western nations are hoping the Geneva conference will set a target date for completion of the protocol by 1998.

However, countries are split on the scope, scale and intrusiveness of the future verification system, which threatens to delay the talks beyond 1998. Many developing countries are concerned that on-site inspections could allow snooping around unrelated military facilities. There are also problems in ensuring that commercial secrets of private companies are adequately protected.

Now that intricate verification procedures have been agreed for the treaty on chemical weapons, due to come into force next April, and for the just-signed nuclear test ban, disarmament experts fear biological weapons may present a growing attraction for rogue states and terrorist groups.

Since the last review conference in 1991 Russia and Iraq, both treaty members, have admitted to possessing biological arms and there are suspicions that development programmes may be continuing.

Aum Shinrikyo, the Japanese sect which used chemical agents in its deadly attack on a Tokyo subway last year, was also apparently trying to develop a biological weapons capability. There are even claims it sent a team to Zaire to help with an Ebola outbreak in 1992 with the objective of collecting a sample of the virus.

According to a 1993 report compiled by US intelligence, China, Iran and Syria also possess biological weapons and Egypt, Taiwan and Libya may have them. British officials say that up to 10 states may have biological weapons, though Mr Sha Zukang, China's disarmament ambassador in Geneva, insisted yesterday that his country was in full compliance with the treaty.

Biological weapons are harder to detect than nuclear or chemical arms because they can be easily produced and stored in tiny quantities. Agents causing anthrax, plague and botulism occur naturally and can be grown in a laboratory.

More work needed on the concept of full employment

The ILO's annual report argues the current world jobless rate is neither politically nor socially sustainable, writes Robert Taylor

One billion people, 30 per cent of the world's workforce, are either jobless or underemployed, according to the Geneva-based International Labour Organisation.

In its annual employment report, published today, the ILO argues a renewed commitment by national governments to the concept of full employment with a sustained annual global growth rate of more than 3.5 per cent could help to resolve the crisis. The report says that full employment is "not passé" but "still feasible and highly desirable".

"Current levels of unemployment make no economic sense and are neither politically nor socially sustainable," said Mr Michel Hansenne, the ILO's director-general yesterday.

"It is not just heartless but pernicious to assume nothing can be done to remedy unemployment, that so-called jobless growth [when a country's gross domestic product grows with no substantial jobs growth] is the best that can be hoped for in an increasingly competitive economy or that current unemployment rates somehow constitute a natural and inevitable outcome of market forces."

The report seeks to demolish a range of assumptions about world employment. "It is not true globalisation is an uncontrollable supranational force that has largely usurped national policy autonomy," it says. According to the ILO the nation state is "still the dominant influence on economic and labour-market outcomes. Global financial markets punish unsound macroeconomic policies which are, in any case, undesirable in their own right". It adds, "The empirical evidence suggests trade with developing countries and the relocation of industries has been only a minor explanatory factor behind the rise in unemployment and the declining wages of unskilled workers in industrialised countries."

'It is not just heartless but pernicious to assume nothing can be done to remedy unemployment'

The report questions the popular view that the world is running out of jobs. "Much of the 'end-of-work' literature rests on unwarranted extrapolations from dramatic episodes of corporate downsizing, ignoring job creation elsewhere in the economy." The ILO says the employment growth rate has remained "almost unchanged over the last three-and-a-half decades and has not slowed down significantly since 1973", with the pace of job creation remaining steady in the face of the reduced economic growth rate of the 1970s and 1980s.

Nor does the ILO accept job changes are becoming more frequent and employment more unstable, saying there has been an increase, not a decline, in the length of job tenure. "On average, individuals currently employed have been in their jobs for six to 12 years depending on the country and this figure has not been declining," it says. Only in Spain have job moves become increasingly frequent, "probably because of institutional changes".

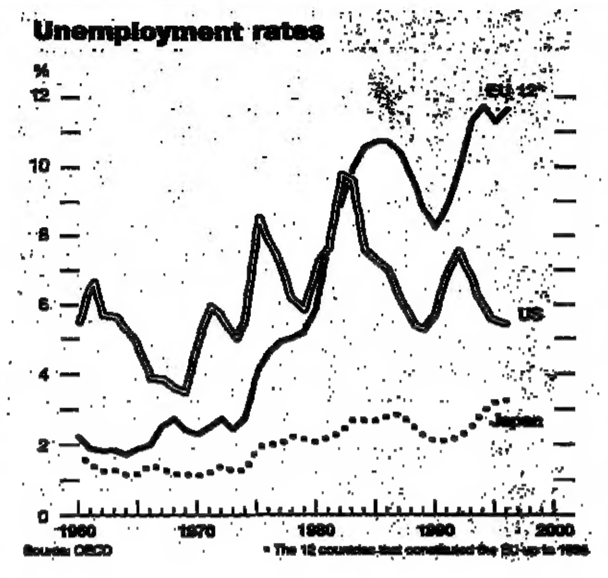
The report doubts whether "labour market imperfections" are "either the main or the sole cause of the upward drift in European unemployment," although it does not suggest they have had no effect. "Labour market rigidities have not been increasing over the period of rising unemployment," says the ILO.

It says the main "underlying" cause of increased unemployment is the slowdown in economic growth since 1974. It also criticises the rise in wage inequality, particularly in the US, UK and New Zealand, which it argues is partly due to the decline in trade union density and decentralisation of pay bargaining.

The report states: "There is no convincing evidence that it is supply-side constraints, rather than a deficiency in demand that have caused the prolonged period of low growth." It adds: "Higher growth is possible provided a sustained period of expansionary policies is supported by credible policies to prevent a resurgence of inflationary wage increases and to overcome the skill shortages that will be generated. Without this the expansionary impulse will indeed be choked off by the reaction of the financial markets." The ILO calls for a return to co-ordinated pay bargaining, the creation of social pacts between unions and employers, as well as the encouragement of profit-sharing or "some form of tax-based incomes policy if there are no better alternatives". It wants more efficient labour market policies with subsidies for low wage employment, training focused on the most disadvantaged, incentives for recruiting long-term jobless and improved benefit transfer programmes linking benefits and work more closely together.

The report says developing countries should also be committed to full employment and it argues this can be achieved by creating more open and competitive economies that benefit fully from expanding trade and investment flows in the global economy. The ILO believes, however, the "trickle-down effects of market reforms will be weak unless they are accompanied by programmes to strengthen the productive capacity of the poor" through improvements in rural infrastructure, education and health services.

Unemployment rates



Source: OECD

* The 12 countries that constituted the EU up to 1995

Algerian military votes on party ban

By Roula Khalaf

Algeria's army and security forces voted yesterday in a controversial referendum on amending the constitution.

The early vote will allow a heavy deployment of security forces when civilians vote on Thursday.

The referendum proposes a change to the constitution by banning parties from using religion to further their political ends.

It was the imminent victory of an Islamist party fiercely opposed to the Algerian military which prompted the army to cancel the second round of legislative elections in 1992. Since then, Algeria has been plunged into a cycle of violence which has claimed more than 50,000 lives.

The new constitution aims to prevent any single party challenging the state again. It proposes to expand the powers of the presidency by setting up a second chamber of parliament, with a third of its members designated by the president.

The army-backed Algerian government holds up the referendum as a vital step in the building of democratic institutions. But many in the opposition see it as an attempt to create a facade of democracy while institutionalising totalitarianism.

The government has relentlessly campaigned to convince the 16.4m eligible voters to cast "yes" ballots. Some opposition groups have called for a boycott, others for a "no" vote. Legal Islamist parties are leaving the choice to their supporters.

Opposition leaders, including Mr Hocine Ait-Ahmed of the Socialist Forces Front (FFS), and representatives of the Islamic Salvation Front (FIS), the banned Islamic party which was stripped of an election victory in 1992, issued an appeal for peace in Brussels yesterday and urged voters to vote "no" or to boycott the poll.

UN near to deal on Iraqi oil sales

By Michael Littlejohns, UN Correspondent, in New York

Iraq and the United Nations yesterday appeared close to agreement on a plan that will return $2bn worth of Iraqi oil to the world market over six months.

News of imminent implementation of the deal agreed with the UN in May sent benchmark light crude oil prices down almost 40 cents to $22.66 a barrel.

A Security Council sanctions committee has yet to approve a pricing formula that would trigger the resumed flow of Iraqi oil.

Ms Sylvana Foa, the UN press secretary, said some details still had to be concluded, including certification that damaged metering equipment was working. But Mr Boutros Boutros Ghali, the secretary-general, expected to report favourably to the Security Council in a matter of weeks.

Mr Nizar Hamdoon, Iraq's UN delegate, who delivered Baghdad's response after months of haggling, said that all the conditions set by the UN had been met except for a pricing formula.

The US has been the main obstacle on that issue but officials said Washington was unlikely to stand in the way now that the American elections were over. Iraq and the US have also disagreed over the number of foreign and Iraqi observers who would be allowed to inspect the distribution of humanitarian supplies. Iraq has sought to restrict the observers' freedom of movement.

The UN put the deal on hold in September after Iraqi troops assisted a Kurdish faction in recapturing the administrative capital of Arbil in the Kurdish enclave. The shortage of food and medicine is estimated by Unicef to have led to the deaths of 4,500 children every month from hunger and disease.

Opec meeting, Page 32

NEWS: WORLD TRADE

Africans forge closer trading links

South Africans are looking north for trade and investment opportunities, writes Mark Ashurst

Between Pretoria and Cairo there are only five manufacturers of car tyres. Few statistics better illustrate the sparseness of Africa's manufacturing base, or its appeal to South African exporters. Faced with rising competition and the dismantling of protective tariffs at home, many manufacturers hope mainland Africa will provide a fillip for their fledgling export businesses.

Trade has been most brisk in East Africa – particularly Kenya, where combined imports and exports last year reached a record R1bn ($212m). Exports have increased fourfold since the end of apartheid in 1994, as the cheaper transport costs of goods from South Africa have prompted a shift in regional economic allegiances. According to Mr Christopher Hartland-Peel, African equities analyst at Standard Bank in Johannesburg, South Africans are gradually displacing European investors in Central and East Africa.

Analysts expect the number of joint ventures between South Africa and Kenya, the continent's most industrialised nations, to mushroom next year. Spoornet, South Africa's state-owned rail group, has reached a technology transfer agreement to supply computerised data systems to Kenyan rail freight operators. And most South African exporters of steel, chemicals, plastics, polymers and foodstuffs have appointed full time agents in Kenya within the last two years.

"We are getting to understand the country and the economy," says Mr Stan Shaw, manager of East African trade at CGIC, South Africa's credit guarantee agency, which is helping to set up a sister organisation in Nairobi. Significantly, much of the new activity is in labour-intensive, value-added industries where South Africa has battled to gain a foothold in more developed markets.

South African cars, for example, remain uncompetitive in world markets – largely due to the short production lines developed behind high protective tariffs during the sanctions era. But exports of individual components are flourishing. Lonrho's Nairobi subsidiary now distributes Toyota parts from the company's South African plant, after many years of importing them from the Far East. In the first four months of 1996, exports to Kenya of vehicles, machinery, base metals, and chemicals comprised about 60 per cent of total non-mineral exports worth R2.4bn.

Mr Tony Wright, general manager of Africa banking at Standard Bank, says exporters welcome trade with Kenya because of its relatively low sovereign risk and stable foreign exchange reserves. But measures to curb corruption have not kept pace with economic reforms: "There is always the risk of a heavy whip in the background." He cites neighbouring Tanzania, where trade volumes are significantly smaller but economic reforms have outpaced Kenya, as a model for attracting direct investment.

Tanzania is now rated an "A-grade country" by Randgold, the South African mining group which grades African states by their suitability for investment. "The macroeconomic picture is very important to us, because mining is long term," says Mr Mark Bristow, managing director of Randgold Resources. He is encouraged by new mining legislation that welcomes foreign capital, and the authority's strict action to curb illegal mining at Balyanhulu earlier this year. "The government has seen the benefits of what we do."

As the worldwide scramble for African mining rights gains momentum, South African mining houses have been at the forefront of exploration in Tanzania. The country produces only 0.9 per cent of Africa's gold, but feasibility studies by gold miners Anglo American, JCI Ltd and Randgold are all at an advanced stage. Randgold, which last year entered a joint venture with Pangea Goldfields, the Canadian exploration company, will invest about $4.5m to develop a 1.5m ounce ore body at Lake Victoria.

The trend of consolidation in global industries is a further catalyst for South African companies to forge a path in Africa. Engen, South Africa's biggest oil retailer, last month announced a R100m investment in an oil terminal at Dar es Salaam, its biggest investment in Africa to date. The deal grants Engen access to a further two inland refineries and an option to bid for a network of retail fuel stations. It also furthers the ambitions of its biggest shareholder, Petronas, the Malaysian state-owned oil and gas company which wants more exposure in mainland Africa. Mr Rob Angel, chief executive, is "confident a deal can be done" to enter the Tanzanian retail market.

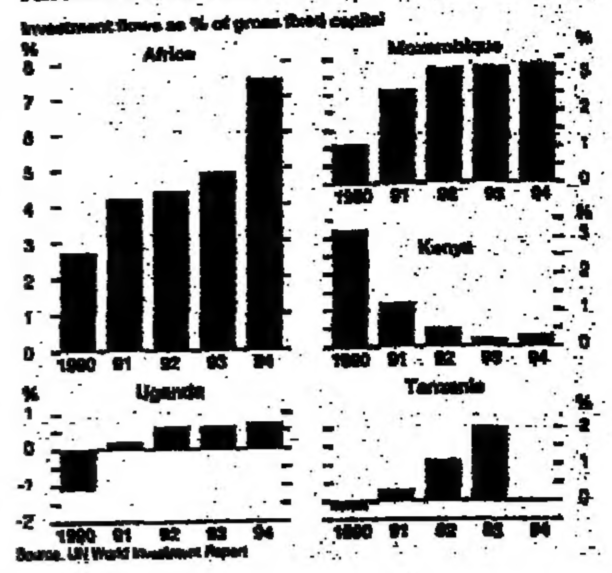
Arguably, the greatest catalyst for investment from South Africa is privatisation. The best example is Tanzania Breweries, which was partially privatised in 1993, enabling SAB to acquire a 45 per cent stake and a five-year management contract. Its market share has increased from 25 per cent to 75 per cent, and the brewery posted its first profits this year. South Africans can create a partial barrier to entry for European rivals by using refurbished equipment as part of its equity, says Mr Robin Smith, financial director of South African Breweries' international brewing interests.

In the longer term, fixed investment – particularly joint ventures – is vital to counter resentment caused by the massive imbalance of trade. Last year, South African exports to Kenya were worth R940m, compared with imports of R111m. In Tanzania, the trade gap was a gargantuan R611m on imports worth R627m – an increase of 340 per cent from R183m in 1994.

The weaker rand is likely to widen the trade gulf this year, while the hands of South African investors are tied by exchange controls. But in time, the gradual easing of these restrictions will favour a flow of South African capital to East Africa. Lower labour costs and comparatively stable currencies will become a magnet for South African manufacturing industry, says Mr Hartland-Peel.

African inward investment

Investment flows as % of gross fixed capital



Source: UN World Investment Report

China offers to cut tariffs to 15%

By Sophie Roell in Beijing

China yesterday reiterated its undertaking to reduce import duties to an average of 15 per cent by the year 2000, in a second round of tariff cuts intended to demonstrate its commitment to trade liberalisation and boost its chances of a quick entry to the World Trade Organisation.

The Chinese president, Mr Jiang Zemin, attending the Apec forum in the Philippines, confirmed China's intention to reduce tariffs – which currently stand at an average of 23 per cent following a reduction of 12.9 per cent earlier this year.

However, observers were sceptical about how much the tariff cuts had achieved. A European diplomat said that while on average tariffs had been brought down, those on particular product groups, such as cars, were still punishingly high. "These are the areas in which European exporters are strong," he said.

The lowest tariffs have tended to be in sectors such as raw materials, which are of less interest to western exporters, he said.

The European Union is understood to be waiting for China to bring tariffs down to an average of below 10 per cent before endorsing the country's WTO entry.

Diplomats have also criticised the myriad quota restrictions still in place, and licensing requirements which bar access to the Chinese market – particularly in the service sector.

China's state-owned media however have been publicising the country's exemplary stance on trade liberalisation, and arguing the case for a quick entry to the WTO.

The China Daily noted that China's tariff cuts had achieved in a "single stroke" a Uruguay Round requirement that signatories cut their customs duties by one-third within five years.

Nevertheless, in recent months there has been more optimism about getting talks on China's entry to WTO back on track. One analyst referred to a "new momentum" in negotiations, prompted by a somewhat softer US stance, and the apparent determination of the Chinese leadership to "breathe new life" into its efforts to join WTO.

"I think there will be greater progress next year, though China still has some way to go before either the US or Europe is satisfied," he said.

Europe in telecoms deal with S Korea

The European Union and South Korea have struck a deal to throw open their telecommunications equipment markets to each other's suppliers, Reuter reports from Brussels.

"European companies will now be treated as fairly as their Korean counterparts when bidding for contracts to supply telecoms equipment to the network run by Korea Telecom," the European Commission said in a statement.

The deal will also give Korean suppliers equal access to contracts in Europe's $22bn-a-year market. The Commission said it would withdraw the dispute procedure begun against Korea in the World Trade Organisation if EU ministers, who have the final say on the accord, give it a green light.

The deal covers contracts in Korea's $6bn telecoms equipment market awarded by both state-controlled Korea Telecom and by newly licensed private operators, the Commission said. Korea Telecom accounts for 80 per cent of the country's telecoms network market.

"Today's breakthrough, which follows over two years of intense negotiations, applies mainly to switching and transmission equipment and cables," the Commission said.

Korea pledged to end legislation and practices that discriminate against European products, while the Commission agreed that the EU would waive a provision in its "utilities directive" that gives preference to European telecoms products.

That directive allows public agencies to reject bids when products are less than 50 per cent EU origin. It also requires them to prefer EU bids over other equivalent bids if the price difference is no more than three per cent.

Suppliers will have the right to challenge contract awards in national courts and the two sides will use a binding dispute-settlement mechanism to resolve disagreements over implementation of the accord, it said.

The Commission said the deal should make it easier to conclude a proposed global would Information Technology Agreement, which aims to eliminate tariffs on a wide range of computer and telecommunications equipment.

WORLD TRADE NEWS DIGEST

Suez Canal cuts prices

The Suez Canal is to give discounts to certain vessels from next year because of increasing competition from oil pipelines and other shipping routes. Oil tankers carrying up to 3m tons will receive discounts of 5 per cent to 30 per cent on fees for using the canal, according to Mr Ali Ahmed Fadel, head of the Suez Canal Authority.

Liquefied natural gas carriers will obtain discounts of up to 35 per cent while certain container ships will also be granted reductions, he said. The canal, which opened in 1869, is one of Egypt's main sources of foreign currency.

Mr Fadel said that market studies indicated that the new fees should help increase canal revenues by between 5 and 10 per cent in 1997. Revenues for the first half of this year were $923m against $948m in the same period of 1995. *Sean Evers, Cairo*

UK fosters S American trade

The UK government hopes to promote greater trade and investment with Latin America with a one-day conference in London on February 10. It hopes some Latin American heads of state will speak at the conference, as well as ministers and senior businessmen. Mr Ian Lang, left, president of the Board of Trade, said that although Britain was the largest investor in the region after the US, many companies still overlook what is the fastest growing region in the world after south-east Asia. Britain's share of exports to Latin America is only 1.7 per cent, well below its 4.5 per cent share of world trade. *Stephen Fidler*

Telstra wins Hilton contract

Telstra, the Australian government-owned telecommunications group, has secured a three-year deal to supply telecoms services to the Hilton International hotels group.

Services will include the hotel group's internal network, and also the facilities provided to visitors, including video-conferencing between hotels. *Nikki Tait, Sydney*

Egyptian order for Rolls

Rolls-Royce company Peebles Electric has won an £8m ($13.4m) order to supply power generation equipment to an Egyptian chemical plant. Peebles will provide equipment for the 17.7MW combined heat and power scheme at the Talkha II urea plant in northern Egypt. The plant has been ordered by Société El Nasr d'Engrais et d'Industries Chimiques (Semadco), the state company for fertiliser and chemical utilities, to provide electricity and steam for production purposes.

Rolls-Royce Aerospace Group recently won an order worth up to $450m for RB211-535 engines to power a batch of Tupolev Tu-204 aircraft ordered by the Kato Group of Egypt. *Foreign Staff*

■ Arvin Industries of the US, an international vehicle component maker, and Kayaba Industry of Japan, a power steering pump producer, have agreed to form a joint venture to manufacture and sell power steering pumps to European car manufacturers. The new company will be based in a new plant in Pamplona, Spain, and will begin production next year. *Reuter, Columbus*

■ CAE, the Canadian electronics group, will build a $3m automated control system for Sichuan Electric Power of China. The system will manage output and distribution from two hydro-electric stations with total capacity of 1,300MW. CAE has sold six similar hydro control systems to China since 1985. *Robert Gibbens, Montreal*

Peru deal on MiG jets confirmed

By Sally Bowen in Lima

President Alberto Fujimori of Peru has confirmed the purchase of an unspecified number of Soviet-built MiG fighters, an acquisition that has led Ecuador to suggest that Peru's neighbours might be obliged to buy new arms themselves.

Mr Fujimori in a television interview late on Sunday night spoke of a "fleet" of MiG-29s, which will be the first such fighters in any Latin American country. However, he refused to specify the quantity or the price paid.

Mr Frank Vargas, Ecuador's minister of the interior said the Peruvian acquisition would "oblige other countries, especially [Peru's] neighbours, to buy new arms."

Mr Fujimori said the purchase of new arms had meant withdrawing "several hundreds of millions of dollars" from the budget. That meant "fewer resources" and "less disposable cash" for the internal economic programme.

The Peruvian economy, originally projected to expand by 3.5 per cent to 4 per cent this year, is now barely on target for 2.5 per cent growth.

The MiG purchase represents something of a *volte-face* for Mr Fujimori who – since becoming president for the first time in 1990 - has insisted at home and abroad that priority expenditure was for poverty alleviation, not weapons.

It seems likely, however, that pressure from the highest levels of the armed forces – still smarting from their poor showing in the February 1995 border conflict with neighbouring Ecuador – has finally proved irresistible.

Reliable details are still scarce, but the MiG deal is believed to have been struck with Belarus, which has a large stock of Soviet-built jet fighters inherited when it gained independence with the break-up of the Soviet Union.

According to Mr Fujimori, the acquisition will "help in re-establishing the strategic equilibrium" and is a "purely defensive measure".

Purchase is 'a purely defensive measure', says Fujimori

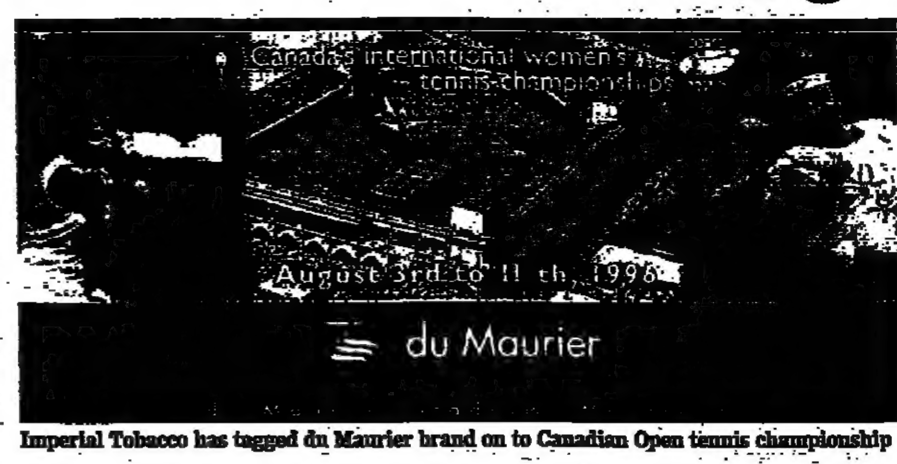
Peru lost nine aircraft during the Ecuador conflict, while the Ecuadoreans lost a maximum of two.

The US, one of the four guarantor countries of the 1942 Rio de Janeiro Protocol, which is the framework for continuing Peru-Ecuador peace talks, has expressed official regret at the Peruvian arms purchase

However, Mr Fujimori said there was no reason for US surprise: Ecuador, after all, recently acquired a number of Israeli K-Fir fighters, also justified on the grounds of replacing old equipment.

Ottawa fans tobacco advertising flames

Bernard Simon explains why government efforts to agree a ban have aroused such passion



Imperial Tobacco has tagged du Maurier brand on to Canadian Open tennis championship

Canada's Liberal government knew it had been handed a hot potato in September 1995 when the supreme court struck down a ban on tobacco advertising.

But the landmark ruling has produced even more heat than expected. More than a year later, the government has yet to carry out its promise to pass a new law.

Its efforts have been bogged down by discord among individual cabinet ministers and departments. Furthermore, proposals to widen the advertising ban to include tobacco company sponsorships have aroused loud protests from hundreds of cultural and sports groups.

The latest delay came last week when Mr David Dingwall, the health minister, cancelled plans to unveil a new anti-smoking bill.

Mr Dingwall changed his mind after news leaked out that the measures would include a rise in cigarette taxes. The leak raised concerns that distributors would reap windfall profits by stockpiling supplies.

The original Tobacco Products Control Act, enacted in 1988, was one of the world's toughest anti-smoking laws. It included a blanket provision that "no person shall advertise any tobacco product offered for sale in Canada."

The law barred the use of tobacco trademarks on products such as T-shirts, and required tobacco companies to put prominent health warnings on cigarette packs.

But the supreme court, responding to a challenge by local subsidiaries of US-based RJR Nabisco and the UK's Imperial Tobacco, ruled that the act violated the tobacco industry's constitutional right to freedom of expression.

The court indicated that some curbs on tobacco advertising might be permissible. But they would have to be based on "minimal impairment" of free speech.

The ruling has cleared the way for tobacco companies to resume advertising within a self-imposed code of conduct.

Mr Dingwall, a combative and ambitious minister, has been under heavy pressure from health groups not only to reimpose the advertising ban, but to find new ways of clamping down on smoking.

Sponsorship has been a tempting target. The act permits sponsorships, but only under company names, not brands.

However, the industry has found ways of getting its message across. Imperial Tobacco registered four new companies under the names of flagship brands.

For instance, the name "du Maurier" has been tagged on to the Canadian Open tennis championship. A spectacular annual fireworks display at Ontario Place in Toronto is now known as the Benson & Hedges Symphony of Fire.

But the moves to toughen the anti-smoking law have run into obstacles. Some 250 arts and sports groups that benefit from tobacco sponsorships have formed an Alliance for Sponsorship Freedom.

Mr Max Beck, Ontario Place's general manager, estimates the groups receive about C$60m (US$45m) a year from the tobacco industry, with marketing and promotional support adding roughly C$200m more.

Mr Bob Moffatt, president of Tennis Canada, says: "All of us are very sensitive to the smoking issue. But we've not been convinced that the objectives will be reached by removing sponsorships."

The tobacco industry is also mobilising retailers who would be hit by provisions, said to be under consideration in Ottawa, to limit behind-the-counter displays of cigarettes to one pack of each brand. Tobacco manufacturers pay retailers about C$60m a year in "display allowances".

Mr Dingwall's proposals have also sparked friction within the Liberal caucus, especially with Mr Paul Martin, finance minister.

Questions have been raised about the wisdom of raising cigarette taxes less than three years after they were sharply cut to stop smuggling across the US-Canada border.

According to one Ottawa lobbyist, the finance department has shot down a proposal to channel a portion of cigarette taxes into a fund that would replace tobacco company sponsorships.

Arts and sports groups have made no secret of their frustration with Ms Sheila Copps, the heritage minister, who supposedly represents them. "She has not been there for us," Mr Beck says.

Despite the delays and disagreements, Mr Dingwall is widely expected to table the new bill before the House of Commons rises for its Christmas recess. However, the bill's critics are unlikely to give up without a fight.

The sponsorship community plans to press its case at parliamentary hearings, through individual MPs and, possibly, through legal challenges.

The tobacco industry is sceptical that a tougher law can meet the criteria set out in last year's judgment.

Mr Rob Parker, president of the Canadian Tobacco Manufacturers Council, says: "We don't think the politicians and bureaucrats understand the implications of the bill."

It would thus come as no surprise if the supreme court once again ended up deciding how far politicians can go in their anti-smoking crusade.

AMERICAN NEWS DIGEST

US set to cut phone charges

The US's main telecommunications regulator is expected today to take the first step in its efforts to bring down international telephone charges. Its action could have an impact in particular on rates of calls between the US and the UK, easing the way to lower prices on transatlantic calls.

The change due to be considered today by the Federal Communications Commission would loosen the regulatory regime for international telephone traffic between the US and certain countries. It would apply only to those which the US believes have competitive domestic telephone markets. The group is likely to include the UK, Canada and Sweden.

The change would allow carriers in the US and the countries concerned to negotiate freely on the terms under which they complete each other's calls, introducing a new element of competition into international traffic. At present, the US imposes restrictions on such arrangements.

The rule change is seen in part as a response to the UK's plans to allow companies other than British Telecommunications and Cable and Wireless to carry international calls into the UK. New competitors would be able to compete more aggressively to carry calls from the US, without being under any obligations to US carriers. *Richard Waters, New York*

Mexican airport in drugs row

A Mexican admiral has accused former employees of the National Airport Authority in Cancún, the country's top tourist destination, of supplying jet fuel to drug traffickers who use the busy airport as a stopover while transporting cocaine from Colombia to the US.

Admiral Enrique Sangri Namur, director of Cancún's international airport, told El Universal, the Mexico City daily, that 19 employees had been fired after the discovery of fraudulent invoices which sought to conceal the sale of jet fuel to the aircraft of drug traffickers.

"Cancún has supplied fuel surreptitiously to drug traffickers for many years," the admiral, who took over the administration of Mexico's second busiest airport in 1995, was quoted as saying.

Admiral Sangri Namur was not available for comment yesterday. Mr Leonel Soda Sánchez, a union official who made similar accusations against the airport officials, was murdered in 1995.

Officials at the National Airport Authority's headquarters in Mexico City, however, confirmed that 19 airport employees had been sacked recently, but were surprised at the admiral's press comments.

"The 19 employees were fired for administrative offences," a spokesman for the National Airport Authority, said yesterday. The drug trafficking allegations come at a particularly embarrassing time for the National Airport Authority, which is being prepared for privatisation. *Leslie Crawford, Mexico City*

Chemical groups lift spending

US chemicals companies plan to increase spending on plant and equipment by 5 per cent annually for the next two years, following an 8 per cent increase in 1996, according to the preliminary results of a survey* by the Chemical Manufacturers' Association (CMA), a US industry group.

These plans are based on expectations of 5 per cent sales growth in 1997 and a 10 per increase in net operating income, according to the survey. However, there are signs that some of the survey's projections could prove too optimistic. Companies are projecting export growth of 5 per cent in 1996 and 6 per cent in 1997, but official US trade data show export gains of only 1.3 per cent for the first eight months of this year.

Historically, the chemicals industry has tended to invest in new plant and equipment at the peak of its earnings cycle, leaving it with excess capacity when the market weakens. The CMA predicts that 1996 profits for the US chemicals industry will total $35bn-$37bn, roughly in line with last year's $35.8bn, following several years of strong profits growth. *Tracy Corrigan, New York*

**The US Chemical Industry Performance in 1996 and Outlook, from the Chemical Manufacturers' Association, 1300 Wilson Boulevard, Arlington, VA 22209, USA.*

Japan governor quits in sleaze row

By William Dawkins in Tokyo

Japan's series of corruption scandals involving public officials yesterday claimed the first prefectural governor to resign over allegations of misuse of public money.

A reluctant Mr Kikuji Sasaki, governor of Akita, northern Japan, for the past 17 years, announced he planned to step down at a date yet to be decided, over claims that he and 750 other local government officials had spent Y820m ($7.4m) on bogus business trips, wining and dining.

The humbling of Mr Sasaki, 75, a political independent, could give impetus to investigations into misuse of public funds in five more of Japan's 47 prefectures, Hokkaido, Miyagi, Gumma, Mie and Kagoshima.

On top of this, senior national politicians in the ruling Liberal Democratic party (LDP), including Mr Hiroshi Mitsuzuka, the finance minister, have come under increased attack from the political opposition in recent weeks for allegedly accepting political funds from disgraced companies in the oil distribution and financial industries.

The publicity attracted by these events has sharpened public distaste for corruption by politicians. It is a potentially destabilising trend, just as the new minority LDP government is trying to get down to a busy policy programme, including the 1997 budget, an increase in sales tax and ambitious plans for the reform of Tokyo financial markets.

Mr Sasaki's forced resignation is a rare example of an effective public protest in Japan, a sign of how voters are demanding and getting more influence over politicians' behaviour. Citizens' groups called on him to leave after the allegations came to light in local newspapers last year. This led almost all 69 municipal assemblies in Akita to call formally on the governor to step down.

Mr Sasaki's fate was sealed not by civic groups, but when the LDP, itself no stranger to allegations of corruption, and a former supporter of the governor, called on him to step aside. In the last prefectural election, he was re-elected with the backing of the LDP and the leftwing Social Democratic party.

"I feel great responsibility and came to the conclusion that I should resign at an appropriate time," he said yesterday.

Mr Sasaki has refused to account for how the money was said to be misspent. But his junior colleagues acknowledged wrongdoing by returning Y970m earlier this year – Y820m plus interest – to the prefectural government.

Indian economy at sixes and sevens

At sixes and sevens is where, in percentage terms, India's economic growth rate should be. It is, in fact, where India's economic planners, investors and analysts are.

The government is optimistically forecasting gross domestic product growth for this year of 6.6 per cent – the same as last year. Pessimists, such as ING Barings, the investment house, say growth may even slide to 4 per cent this year and into recession next year.

The one clear fact is that the economy has faltered significantly in the first half since April – the first real hiccup in growth since reforms began five years ago. The prime causes have been high interest rates, the impact of poor infrastructure and slackening consumer demand. But there is little agreement on whether the slowdown is short- or long-term, cyclical or structural.

Anecdotal evidence of a slowdown abounds. "Virtually all the companies we're dealing with are reporting slower sales, longer delays in being paid, difficulties in raising capital," says the head of one foreign venture capital fund in Delhi. Provisional estimates for the first half support this. Industrial output for April-July is up just 9.3 per cent against 12.3 per cent last year, with more recent figures for 24 important sectors for April-September showing a slowdown to 4.8 per cent growth against 12.8 per cent last year.

Export growth is much lower, having risen just 9.9 per cent for the half against 26 per cent last year and imports too have slipped to just 3 per cent growth for the half against more than 30 per cent last year. The fall in imports is most marked in industrial inputs, a barometer of future industrial output. Capital goods imports are down 20 per cent this half on last year.

Investment has also paused, with lending sanctions by state financial institutions down a fifth on last year with growth in bank credit to the private sector also 2.4 percentage points lower at 17.6 per cent.

Nevertheless, the government and some investment houses believe the cycle is about to turn and the economy will recover before the end of the fiscal year in March. Having chiefly blamed the tight-money, high-interest rate and low-inflation policies of the former Congress government for the slowdown, Mr P. Chidambaram, the finance minister, announced, in October, a two-phase cut from 12 to 10 per cent in the ratio of statutory commercial bank deposits held with the central bank, with the aim of pumping a prospective total of Rs85bn ($2.4bn) into the banking system by January.

The intention was to pull down bank lending rates, which for most companies were exceeding 20 per cent. Interest rates have since fallen slightly, though they remain high in real terms against an inflation rate of around 6.5 per cent.

The government and other sanguine analysts also point to prospective record harvests this year as likely to inspire a recovery. Farm output last year was worse than expected, leading to a downward revision of annual GDP growth to 6.6 per cent from an initial 7 per cent.

Mr Chidambaram and others point out, too, that the lower industrial figures paint a mixed picture. Manufacturing growth, for instance, is still running above 10 per cent, only slightly down on last year's 12 per cent. "It's lower, but still a licking good rate," says one finance ministry official. Second half growth is likely to benefit from higher electricity output – the result of good monsoon rains raising hydro-electric generation.

The pessimists, however, remain unconvinced. They argue there remain structural economic problems which will persist in dragging down growth. They point out that slightly higher power output will not make up for a growing power deficit. Moreover, they argue that interest rates cannot fall far while the government is unable to reduce its fiscal deficit.

Mr Chidambaram set a fiscal deficit target of 5 per cent of GDP in this year's budget. But officials now say 5.3-5.4 per cent is likelier, given poorer than budgeted revenues and higher expenditure, notably on defence.

Officials have also privately downgraded targeted revenues from sales of state assets of Rs50bn to nearer Rs10bn, given flat equity markets and political and procedural delays in pushing through the sales.

The more pessimistic analysts would add that the ideologically diverse and minority 13-party coalition government is politically ill-equipped to take tough economic decisions.

This week, for instance, the government deferred a decision on raising petroleum product prices for political reasons. The government is still smarting from political protests, including from within the coalition, from a 15-20 per cent rise in such prices made soon after taking office in June.

In the end, the prognosis for growth this year is likely to be neither boom nor bust. Between the most sanguine and the most saturnine, investment houses such as Jardine Fleming and Crosby are forecasting growth of between 5.8 and 6.1 per cent for the year. The lesson of the present slowdown therefore appears to be that, without deeper reforms to address the fiscal deficit, public sector reforms and poor infrastructure, India's percentage economic growth will remain in the sixes rather than the sevens it needs, and to which the government aspires.

Mark Nicholson

Capital spending rises in Australia

By Nikki Tait in Sydney

New capital expenditure in Australia rose by 0.9 per cent in the September quarter to A$10.52bn (US$8.5bn), against A$10.43bn in the previous three months. Investment intentions for the current quarter have also firmed.

The figures were welcome news for the federal government, whose August budget forecast a 14 per cent rise in investment in 1996-97. Other statistical data, from jobs figures to retail sales, have suggested the economy is flagging, and a growing number of private sector forecasters had feared the investment targets could be missed. That could have had knock-on implications for economic growth and for the budgetary arithmetic generally.

Market forecasts for yesterday's capital expenditure figures had anticipated a small fall of around 3 per cent. "The survey indicates that the budget forecast... will be met," said Mr Peter Costello, federal treasurer. "Today's numbers about business investment are a very good sign for us."

However, the data were greeted less gleefully by bond markets, where prices fell. The more tangible evidence of business confidence was seen as militating against a further interest rate cut early in 1997. The yield on the benchmark 10-year bond closed at 7.08 per cent, against 7.03 per cent on Friday. Australian shares firmed yesterday, finishing at a record high with the benchmark All Ordinaries index closing 11.3 points up at 2,394.7.

Meanwhile, economists remained divided over the implications of yesterday's capital spending data. Closer examination of the figures revealed that the strong performance in the September quarter for plant and equipment expenditure was partly due to revisions for the previous three months. "Were it not for revisions to the June quarter... plant and equipment would have fallen by 3 per cent," noted Bankers Trust.

There have also been suggestions recently – not least from the Reserve Bank of Australia, the central monetary authority – that the economy has developed two-tier characteristics. A handful of sectors, such as telecoms and mining, continue to be buoyed by healthy investment levels, while labour-intensive sectors, such as retail services, are in the doldrums.

ASIA-PACIFIC NEWS DIGEST

Chavalit named PM, just in time

General Chavalit Yongchaiyudh (*pictured left*) was named Thailand's 22nd prime minister in a rush yesterday, avoiding a diplomatic breach of conduct with Mr Bill Clinton, the US president. A royal decree officially nominating Gen Chavalit, whose New Aspiration party won the most seats in last week's general election, to the top post was issued last evening in record time, enabling him to meet Mr Clinton, who arrived for a brief state visit late last night. Mr Clinton will have said goodbye to one Thai prime minister at the Apec Summit – Mr Banharn Silpa-archa – in Manila and to be greeted by another in Bangkok in the space of 24 hours.

Normally it takes a fortnight after an election for such a decree to be issued by King Bhumibol Adulyadej. But the prospect of Mr Clinton meeting only Mr Banharn, who dissolved parliament amid charges of corruption and mismanagement, apparently speeded proceedings.Gen Chavalit, however, may not attend official functions as premier until he is sworn in personally by King Bhumibol. An adviser to Gen Chavalit said that was not likely until December 1. *Ted Bardacke, Bangkok*

Tokyo lifts Daiwa restrictions

Japan's finance ministry yesterday lifted restrictions imposed on Daiwa Bank last November following disclosure of the bank's attempt to cover up Y120bn ($1.1bn) in bond trading losses at its New York branch. The bank was forbidden to make new investments in trust funds overseas or establish new overseas branches. The lifting of the ban on overseas trust operations is particularly welcome for Daiwa, as it has virtually frozen the bank's pension-fund business in the past year.

However, Daiwa will continue to suffer the effects of the cover-up scandal, as a ban imposed by US monetary authorities on the bank's US operations will stay in effect for about two more years. *Gwen Robinson, Tokyo*

Call for HK anti-trust policy

Hong Kong's Consumer Council yesterday called for the establishment of an anti-trust policy and enactment of competition laws to strengthen the territory's position as a regional business centre. Citing a low level of competition in several business areas, including supermarkets, gas supply and bank deposits, the council recommended creation of an independent competition authority outside civil service.

In spite of Hong Kong's reputation for free markets, several studies have pointed to competition curbs in specific sectors. "While free and open competition has long been the case in the traded sectors of the Hong Kong economy, this has not been the case in some non-traded sectors," a recent study said. *John Ridding, Hong Kong*

Pakistan to reform banks

Pakistan's caretaker government is to reform senior management at the country's public-sector banks as part of a drive to clean up the banking sector. The government also said yesterday it would give more powers to special banking courts to recover overdue loans, cut job numbers and eliminate wasteful expenditure. Yesterday's announcement appears to be the first step in reviving the troubled privatisation of Habib Bank and United Bank, the two largest state banks. *Farhan Bokhari, Islamabad*

Japanese spending upturn

A sign of a continued weak upturn in Japanese consumer spending emerged yesterday, with a 1.6 per cent rise in department store sales in October by comparison with the same month last year. This is the third monthly increase in a row, but represents a slight slowdown in growth from the 2.3 per cent gain showed in September. Consumers' purchases of clothing – nearly half of department stores' total sales – rose by 3.4 per cent, while sales of household goods dropped by 5 per cent. *William Dawkins, Tokyo*

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985 = 100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	91.3
1986	105.5	100.9	6.9	98.4	95.5
1987	108.5	106.0	6.1	104.2	96.7
1988	113.0	110.7	5.4	104.9	100.3
1989	115.5	112.4	5.2	97.9	99.3
1990	116.2	112.4	5.5	82.7	95.4
1991	113.3	110.4	6.8	61.7	100.4
1992	117.0	114.2	7.4	61.8	105.2
1993	122.2	118.2	6.8	67.7	110.6
1994	129.6	125.1	6.0	79.0	112.7
1995	133.8	129.3	5.5	79.2	113.0
4th qtr.1995	1.9	1.6	5.5	79.4	113.0
1st qtr.1996	4.0	1.3	5.6	78.1	114.7
2nd qtr.1996	4.2	3.3	5.4	76.3	117.2
3rd qtr.1996		3.6	5.2		118.9
November 1995	1.9	1.7	5.5	76.9	111.9
December	2.5	1.1	5.5	82.5	113.0
January 1996	2.0	0.6	5.7	79.6	113.9
February	5.3	2.0	5.5	79.5	114.2
March	4.7	1.4	5.6	78.1	114.7
April	4.7	2.6	5.4	76.2	115.4
May	4.6	3.3	5.5	74.2	116.0
June	3.2	4.1	5.2	78.7	117.2
July	3.7	4.0	5.4	76.7	117.8
August	3.1	3.4	5.1	74.7	118.6
September		3.5	5.1		118.9
October		3.6	5.1		

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	2.6	100.0	78.3
1986	106.5	99.7	2.8	94.3	83.2
1987	113.8	103.1	2.8	108.3	91.0
1988	122.6	113.1	2.5	135.9	96.5
1989	132.6	119.7	2.2	147.0	96.5
1990	141.8	124.5	2.1	149.8	95.2
1991	144.5	126.8	2.1	144.2	92.1
1992	139.8	119.0	2.1	124.2	90.8
1993	131.7	113.8	2.5	106.8	96.0
1994	129.5	114.6	2.9	102.2	103.8
1995	128.6	118.5	3.1	106.5	108.4
4th qtr.1995	0.5	1.7	3.3	109.9	108.4
1st qtr.1996	5.8	1.1	3.3	110.7	108.5
2nd qtr.1996	3.2	0.6	3.5	116.8	109.2
3rd qtr.1996	1.4	3.9	3.3		109.8
November 1995	1.0	0.9	3.4	109.6	107.9
December	0.6	1.7	3.3	111.2	108.4
January 1996	6.1	3.0	3.4	110.1	108.1
February	5.5	3.2	3.3	114.6	108.4
March	5.8	−2.9	3.1	107.4	108.5
April	2.8	0.2	3.4	117.7	108.7
May	2.3	2.7	3.6	122.2	108.9
June	4.4	−1.1	3.5	110.3	109.2
July	−1.7	6.0	3.4	129.2	109.5
August	2.1	1.8	3.3		109.4
September	3.6	3.8	3.3		109.8
October					

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	89.7
1986	103.8	102.2	6.4	136.9	89.4
1987	107.4	102.6	6.2	149.5	89.9
1988	110.8	106.3	6.2	165.1	95.6
1989	114.2	111.4	5.6	219.5	97.7
1990	123.4	117.2	4.8	261.9	96.3
1991	130.7	117.9	4.2	297.9	95.1
1992	127.8	116.3	7.7	287.9	89.1
1993	122.3	109.1	8.9	229.0	95.1
1994	120.4	113.9	9.6	241.1	103.5
1995	121.6	115.7	9.4	268.0	100.6
4th qtr.1995	−0.3	−2.8	9.7	261.3	100.8
1st qtr.1996	−1.0	−4.1	10.3	271.9	100.3
2nd qtr.1996	−0.9	−1.8	10.3	283.0	100.8
3rd qtr.1996	0.4	0.1	10.3	270.7	103.5
November 1995	1.4	−1.7	9.7	264.6	100.6
December	−1.6	−4.2	9.9	256.3	100.8
January 1996	−1.2	−1.1	10.1	264.6	100.8
February	−2.0	−7.4	10.3	268.0	100.5
March	0.2	−3.5	10.4	283.0	100.3
April	0.5	−2.2	10.2	283.8	100.5
May	−2.0	−2.7	10.3	282.1	100.8
June	−1.1	−0.6	10.3	283.0	100.8
July	1.8	−0.8	10.3	273.8	101.7
August	−1.6	1.4	10.3	266.7	102.9
September	0.9	−0.4	10.4		103.5
October					

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	10.3	100.0	90.1
1986	102.4	101.1	10.4	107.0	95.7
1987	104.5	103.1	10.5	117.2	95.6
1988	107.9	107.3	10.0	135.3	101.0
1989	109.5	111.3	9.4	160.6	100.7
1990	110.4	112.8	8.9	163.2	94.3
1991	110.3	111.4	9.4	128.2	95.3
1992	110.5	110.0	10.4	109.5	93.4
1993	110.7	105.8	11.7	90.0	98.5
1994	110.7	110.0	12.2	104.1	101.0
1995	110.5	111.7	11.6		95.9
4th qtr.1995	−2.5	−2.1	11.8		95.9
1st qtr.1996	0.7	−0.7	12.1		97.7
2nd qtr.1996	−1.0	−0.4	12.4		97.8
3rd qtr.1996	−2.5	1.3	12.5		102.0
November 1995	0.4	−2.4	11.8		96.0
December	−4.0	−2.3	11.8		95.9
January 1996	0.2	−1.1	11.9		96.3
February	2.9	−0.1	12.1		96.8
March	−1.0	−1.0	12.3		97.7
April	0.2	−0.1	12.3		97.6
May	−2.3	−0.1	12.4		97.6
June	−0.8	−1.1	12.4		97.8
July	−2.1	1.1	12.4		99.1
August	1.4	1.1	12.5		100.6
September	−8.9	1.8	12.6		102.0
October					102.8

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1985	100.0	100.0	9.6	88.4
1986	106.8	104.1	10.4	94.5
1987	112.1	106.8	10.9	96.2
1988	107.9	114.2	10.9	100.6
1989	116.9	118.7	10.9	98.7
1990	114.4	118.0	10.3	95.4
1991	110.9	116.9	9.8	97.6
1992	116.9	115.4	9.8	94.7
1993	114.1	113.0	10.2	101.5
1994	107.4	119.5	11.1	103.5
1995	102.1	127.2		102.0
4th qtr.1995	−7.8	4.5		102.0
1st qtr.1996		0.3		100.5
2nd qtr.1996		−1.5		100.7
3rd qtr.1996		−4.9		102.5
November 1995	1.1	3.9	n.a.	101.7
December	−10.1	5.5	n.a.	102.0
January 1996		0.4	n.a.	101.8
February		0.2	n.a.	101.0
March		0.5	n.a.	100.5
April		−2.8	n.a.	100.5
May		−2.1	n.a.	100.5
June		0.5	n.a.	100.7
July		−2.9	n.a.	101.1
August		−6.8	n.a.	101.8
September		−2.9	n.a.	102.5
October			n.a.	

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	11.2	100.0	90.3
1986	105.3	102.5	11.2	116.1	92.8
1987	110.8	106.5	10.3	141.1	96.5
1988	117.8	111.6	8.6	144.0	96.1
1989	120.1	114.0	7.2	124.3	94.6
1990	121.1	113.7	6.9	97.7	92.6
1991	119.4	109.5	8.8	68.6	95.2
1992	120.4	109.4	10.1	69.6	97.7
1993	123.9	111.8	10.4	76.5	104.6
1994	128.5	117.4	9.5	93.9	106.9
1995	129.9	120.4	8.7	107.7	105.0
4th qtr.1995	1.2	1.8	8.6	111.4	105.0
1st qtr.1996	2.1	1.2	8.3	112.6	106.6
2nd qtr.1996	2.8	1.0	8.3	121.5	107.7
3rd qtr.1996	3.4	0.5		141.0	109.1
November 1995	1.6	2.3	8.6	112.4	104.6
December	1.7	2.2	8.5	110.2	105.0
January 1996	2.2	1.4	8.3	110.9	105.5
February	2.1	1.0	8.4	111.3	106.3
March	2.2	1.1	8.3	115.5	106.6
April	2.3	0.8	8.4	115.7	106.7
May	2.4	1.4	8.3	120.4	107.1
June	3.5	0.9	8.3	126.5	107.7
July	2.3	0.9	8.2	135.1	108.2
August	4.3	0.3	8.1	139.1	108.7
September	3.5	0.3		148.9	109.1
October	4.1				

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

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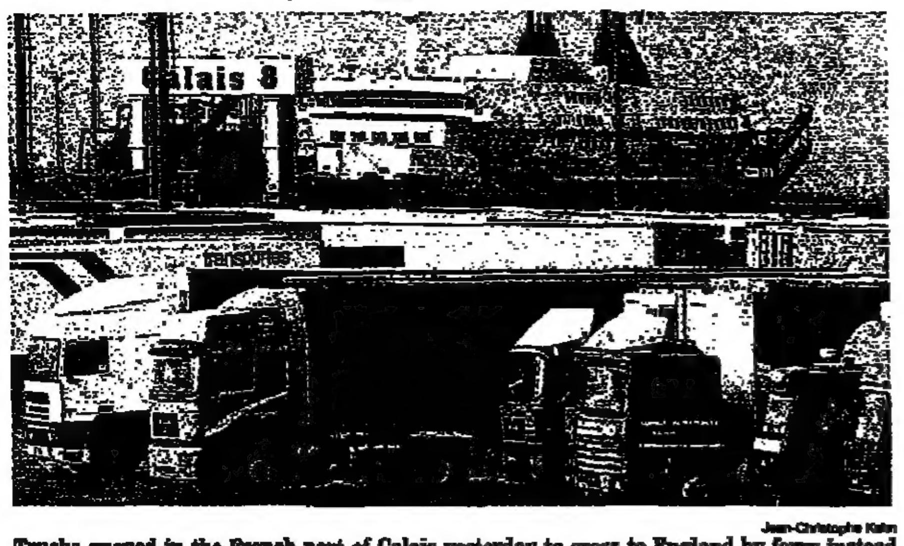
Disruption to services will trigger compensation to national railway companies

Payout news depresses Eurotunnel shares

By Charles Batchelor in London and Andrew Jack in Paris



Jean-Christophe Kahn

Trucks queued in the French port of Calais yesterday to cross to England by ferry instead of by train. Drivers faced additional problems from blockades by French truckers

Eurotunnel's shares fell 5 pence to 81 pence in London yesterday on the news that the company faces the prospect of paying substantial compensation to the three national railways which operate the Eurostar passenger service following the fire on Monday last week.

Eurotunnel is the operator of the Channel tunnel between England and France.

The contract which sets out the commercial relationship between Eurotunnel and Eurostar includes provision for payments when the service is interrupted, Eurotunnel said in Paris yesterday.

However, both companies refused to confirm suggestions that the payment could amount to £10m ($16.9m), saying that the sum involved would depend on the time for which services were suspended.

Eurotunnel has yet to provide the full details of its proposals to re-open services to the Channel tunnel safety authority, which is to meet tomorrow and on Thursday. The Anglo-French intergovernmental commission, which will have the final say on the reopening of the tunnel is expected to meet on Friday. Eurotunnel said it was no longer giving forecasts of when it hoped to expand the number of services running through the tunnel but it said that Eurostar had been running empty trains through the tunnel to reposition them for the relaunch of services.

Long-distance freight trains carrying containers and cars and car components have also been running through the tunnel.

Eurotunnel would be responsible for payments for the first three or four days of interruption of the service, after which UAP, the French insurance group, would be responsible for payments to compensate for the loss of operating income.

UAP will also pay for any civil damages and repairs to the tunnel, and the US company Chubb for the costs of replacing rolling stock.

The sums likely to be paid have not yet been determined, although Eurostar was selling 18,000-19,000 tickets worth several million francs a day across the network.

In the last quarter of last year, the railway companies paid Eurotunnel FFr401m ($78.9m) in tolls for use of the tunnel.

Both Eurotunnel and Eurostar yesterday played down any suggestion of conflict or the prospect of litigation between the two companies in the search for compensation. SNCF, the French state railway operator, said it was examining ways to "assure the protection of our interests".

But it stressed that its priority was for a resumption of the rail service as soon as possible after safety for passengers could be assured. It said it had no indication yesterday of when even a partial service would resume.

$34m sale of Scottish dockyard agreed

Financial Times Reporters in London and Edinburgh

Babcock International, the engineering group, has agreed to buy the Rosyth Royal Dockyard in Scotland for between £20m ($33.8m) and £25m after securing an order book worth an estimated £1bn from the UK Ministry of Defence.

The company, which has been negotiating the deal with the ministry for more than two years, yesterday said refit work for ships including the Royal Navy aircraft carriers Ark Royal and Invincible would protect more than 3,000 jobs at the yard beyond the turn of the century.

The purchase price, while not officially disclosed by the ministry or Babcock, was said by some analysts to be about 30 per cent below original estimates.

"It's an excellent deal for Babcock; Rosyth is the best thing about the company at the moment," said Ms Janet Sidaway at Kleinwort Benson Securities.

Mr John Parker, Babcock chairman, said: "We believe we have achieved a good deal both for us and the Ministry of Defence."

He was speaking after Mr Michael Portillo, the defence secretary, predicted that privatisation of the yard would save the government more than £100m over 10 years. Mr Portillo, announcing the sale at a meeting of Scottish MPs at Westminster, added: "It will also give Babcock the prospect of achieving a secure long-term future for the dockyard.

"To assist it in that, the government has allocated a significant programme of ship refit work."

But he rejected a plea from Ms Rachel Squire – Labour MP for Dunfermline West, which includes Rosyth – to guarantee the value of the refit work already allocated to the yard. Babcock would have to submit competitive prices, he said.

Officials close to the negotiations, however, suggested the order book could be worth more than £1bn over the next 10 years.

Shares in Babcock have rebounded recently from a 12-month low of 44½p on expectations of the Rosyth deal. They rose 2p to 74p yesterday.

Mr Portillo, meanwhile, told Scottish MPs that negotiations would be concluded shortly on the sale of the adjoining Rosyth naval base to Rosyth 2000, a consortium including Babcock, Scottish Power, Bank of Scotland and Forth Ports. Similar talks are expected to be completed before the end of the year with DML, the joint venture company bidding for Devonport Dockyard in south-west England.

Crest to keep to original schedule

By John Gapper, Banking Editor

Crest, the electronic share settlement system, intends to keep to its original timetable of being fully operational by the spring of 1997 despite the problems that have afflicted it in the past month, it was announced yesterday.

The board of CrestCo, the company that owns and runs Crest, decided against a delay in transition to Crest from Talisman, the paper-based share settlement system, after receiving clearance from regulators for the time being.

But the Securities and Investments Board, as well as other regulators, will watch how well Crest recovers from problems of reliability and slowness caused by software hitches, and its users' unfamiliarity with the system.

The SIB emphasised that it would "continue to monitor the situation closely". The SIB has used a consultant to examine Crest's problems independently of CrestCo, and it said there was no need to delay transition "at this stage".

CrestCo's 15-person board cleared the transition timetable after being told by Mr Iain Saville, CrestCo chief executive, that the performance of Crest had improved considerably in the past month due to software changes and the education of participants.

Mr Scott Dobbie, CrestCo's chairman, said board members had asked "detailed questions about the facts" during the meeting, but "the decision was reached almost by itself" after members saw data about improvements to Crest's speed.

The board has already decided to delay the transition of 17 large companies' shares into Crest, which will cut the strains on Crest during a six-week period starting on December 2. This break is to be used to catch up with backlogs.

UK NEWS DIGEST

Hollywood may cut investments

Hollywood studios may be tempted to reduce their investments in film production in the UK because of the recent weakening of the dollar against the pound, says a report from the British Screen Advisory Council, a body representing the film and television industries.

A big increase in the number of Hollywood-funded films made in Britain – including *Evita*, starring Madonna, and Walt Disney's live action version of *101 Dalmatians* – has been a prime catalyst for the recent renaissance of UK film production.

One of the UK's chief attractions has been its comparatively low cost. But the council warns that sterling's recent rise has eroded this advantage. In August, the UK was cheaper than the US in five of the seven key elements of a film's production costs, according to the report, compiled for the BSAC by Hydra Associates, a management consultancy. However, the dollar-pound exchange rate has since risen from $1.55 to around $1.65; and the report estimates that the UK is now less expensive than the US in only two categories, executive salaries and fees for extras. *Alice Rawsthorn*

■ NATIONAL LOTTERY

Elton John may seek film grant

Elton John, one of the UK's most successful pop singers, is considering plans to bid for part of the Arts Council's £160m ($270m) National Lottery film funding package for Rocket Pictures, his film production company. Rocket Pictures, which takes its name from Rocket Records, the singer's record label, was launched this month with financial backing from Walt Disney, the US entertainment group, to produce feature films and television programmes using British talent.

Earlier this month the Arts Council, which allocates state funding for the arts, invited bids for four private sector film franchises, each of which would be entitled to receive up to £39m of lottery funds over six years. Almost all the established UK film production companies have since become embroiled in negotiations to form consortia to bid for the franchises. *Alice Rawsthorn*

■ EQUITIES

Funds increase cash holdings

The UK's largest pension funds sold approximately £7bn ($11.8bn) of equities over the past nine months and increased their cash holdings by approximately £5.6bn despite the relatively strong UK stock market.

A survey by the WM Company, the Edinburgh-based investment management information and administration specialist, states that "UK pension funds may be gearing their investment portfolios for a significant downturn of the equity market".

It surveyed UK pension funds with investments worth £308bn and found that between June and August they sold a net £2.2bn-worth of shares and increased their cash holdings by £1.5bn. *William Lewis*

■ NORTHERN IRELAND

Ex-MP's daughter sought

A daughter of Ms Bernadette McAliskey, a Northern Ireland nationalist who was once a member of the House of Commons in London, is being sought by German authorities for questioning about a mortar bomb attack by the Irish Republican Army on a British army base in Germany in June.

It is understood that police in Germany want to question Ms Roisin McAliskey, aged 25, about the mortar bomb attack on the British military base at Osnabruck in June. "The German authorities are in touch with us regarding their inquiries into serious terrorist crime in their jurisdiction," Northern Ireland police said yesterday. The German federal prosecutor said Ms McAliskey faced charges of attempted murder and possession of explosives. Her mother was independent nationalist MP for Mid Ulster from 1969 to 1974.

■ BANKING

Savers warned on non-UK banks

Savers in Britain need to take extra precautions before depositing money with banks or financial companies outside the UK, the Bank of England, the UK central bank, has warned.

Before answering advertisements on the Internet or elsewhere, the Bank says, depositors should check with local regulators whether the bank is authorised in its home country and what sort of deposit insurance is available, since deposits sent out of Britain will not be covered by the UK's protection scheme. *George Graham*

■ CORRECTION

Mr John Monks

Mr John Monks, general secretary of the Trades Union Congress, was misquoted in yesterday's edition. Mr Monks did not say union leaders found it increasingly difficult to win sympathy or understanding for their views from Mr Tony Blair, the Labour party leader.

Farmers urge early cull of cows at risk from BSE

By Alison Maitland and Maggie Urry

The British government yesterday came under pressure from farmers' unions to hold a rapid cull of cattle most likely to develop bovine spongiform encephalopathy – even at the risk that it might not lead to a lifting of the European Union's ban on exports of British beef. The slaughter of about 147,000 cattle considered most at risk of developing BSE, or "mad cow disease", was agreed at the European Union summit in Florence, Italy, in June as a precondition for any easing of the worldwide ban.

"We made an agreement as a nation and we know Europe will not lift the ban unless we implement all of that agreement," said Sir David Naish, president of the National Farmers' Union of England and Wales, the biggest UK farmers' union.

Speaking at the Smithfield farming show in London, he joined counterparts from Scotland and Northern Ireland in arguing that a cull was the only chance of persuading EU states to ease the eight-month-old ban.

Mr Douglas Hogg, the UK agriculture minister, would not say whether the government would proceed with a cull, saying only that he expected a cabinet decision "soonish."

He agreed with the farming unions that a cull, opposed by many MPs in the summer, would now win parliamentary backing. But he questioned a selective slaughter, saying "EU member states have great difficulty in rapidly and substantially lifting the ban".

Mr Hogg tacitly acknowledged the slaughter policy had become entangled in electoral considerations, saying that in the run-up to an election "everything becomes a political football." He denied the cost of compensating farmers was a primary factor holding up a government decision, but predicted reluctance to agree to heavy spending "which can't be justified".

Sir David admitted that his union had performed a U-turn over the cull, which it strongly opposed early in the year. "I'm not a bit ashamed of it," he said, arguing that most farmers now believed complying with export the Florence deal was the only way forward.

Asked what would happen if the cull was carried out and EU member states still refused to end the ban, Sir David said: "That's one of the risks we have got to take." The UK government said yesterday that 1m cattle had been slaughtered since May, which had posed one of the largest non-military logistical problems of recent years. The easing of the backlog in the scheme coincides with better news on beef sales, with British supermarkets reporting that demand is picking up.

The UK government hopes by the end of the year to issue a consultation document on a national computerised database to identify and trace all cattle – another element of the Florence deal.

Observer, Page 17

Onslaught begins on EU regulation

By David Wighton, Political Correspondent

The UK government will today launch an initiative to cut European red tape amid signs that other EU member states are becoming serious about deregulation.

Mr Roger Freeman, the minister in charge of deregulation, will use a meeting of the internal market council in Brussels to call for an extension of the EU's recently launched deregulation drive. He wants it to tackle areas ranging from testing of electrical equipment to renting out holiday cottages.

He said that Germany, Italy, Denmark, Finland, Austria and the Netherlands were all supporting the Simpler Legislation for the Internal Market initiative. UK government officials said the France, which was initially cautious about the idea, was also enthusiastic.

Mr Freeman said the EU's initiative, launched by the European Commission in the summer, was already showing some successes and was attracting strong support from other member states.

"The mood has changed in Europe," he said in London yesterday. "There is growing recognition that the burden of regulation, particularly on small and medium-sized companies, is a serious disadvantage as far as jobs are concerned."

Today's meeting will consider the first progress report from the SLIM project which has identified significant savings by simplifying export forms and construction product standards.

UK officials estimate that small UK firms could save £5m a year if the recommendations on simplifying Intrastat trade forms were adopted.

Mr Mario Monti, the single market commissioner, said: "The results of the first phase have been fruitful, confirm the validity of the method used and could well justify extending the project to other areas."

Mr Freeman will propose applying SLIM to the Electro-Magnetic Compatibility directive, which is designed to prevent electrical equipment interfering with pacemakers and other safety equipment. Singled out by the UK Federation of Small Businesses as one of the most burdensome regulations, it requires manufacturers to have one-off products, such as customised computers, sent to specialist test houses at significant expense.

● Mr Jacques Santer, president of the European Commission, last night attacked scaremongering in Britain about the European single currency as "amazing." He used a speech in Dublin to deny suggestions that adopting the euro would make one government responsible for the debts of another.

When substance takes second place

PM's Euro-opponents aim to obscure and not illuminate

The forces of opposition claim a triumph for democracy. Kenneth Clarke has to put aside his calculator to deliver an eve-of-Budget House of Commons statement on Europe's plans for single currency. John Major concedes a full debate on the issue before the Dublin summit of European Union leaders in 10 days. An important victory, you might say, for parliament over the executive, for transparency over secrecy. It is nothing of the sort.

One can hardly dispute that the government has been maladroit. What's new? Its insistence that scrutiny of the latest clutch of legal documents on economic and monetary union be handled by an obscure committee of MPs was always risky. But a tactical retreat two or three weeks ago would have passed unnoticed. As usual, Mr Major decided to dig in on the wrong issue.

On Europe the prime minister has a knack of confusing stubbornness with leadership. For more than two years he has allowed the sceptics to set his party's European agenda. Appeasement carries a price. He cannot expect to reclaim his authority now.

To mock Mr Major, though, is to miss the motives of his opponents. Tory sceptics and Labour alike, they have cloaked themselves in the high-minded rhetoric of democracy, of parliament's right to hold to account the government of the day. It is a sham. Neither party to this unholy alliance wants a cool debate about the legal

Kenneth Clarke: strongly pro-European chancellor

framework for a single currency, the subject of the documents now before the Commons. The aim is to frighten not enlighten, obscure not illuminate.

The sceptics see a chance to drive Mr Major further towards their ultimate goal of disengagement from Europe. Their first priority is to oblige the prime minister to fight the general election on a platform of preserving the pound. For his part, Tony Blair is looking for the political advantage which comes with tearing open the divisions in the Tory party. The substance of the issue takes second place.

Reading the relevant documents, one can understand why. They reveal no fiendish plots, no backdoor deals, no secret plan to undermine Britain's opt-out from monetary union. Instead these papers describe in prosaic detail the present state of play in negotiations among EU finance ministers. They add nothing to what is already known about the financial and fiscal framework.

Some profess to be startled by the notion that the proposed fiscal stability pact for Emu nations would involve fines on those nations running excessive budget deficits. Yet the provision has always been there in the Maastricht treaty (article 104c). So, too, has the requirement that all EU governments submit periodically to closer joint scrutiny of their economic performance (article 103).

Nor is there anything in the latest papers to support the charge that, outside Emu, Britain might still be subject to the rules of the single currency club. The only sanction the EU could use against a recalcitrant British administration would be to make public its criticisms. This is hardly a nuclear weapon. Mr Clarke's performance yesterday may not count as his most elegant yet. But his opponents failed to land a blow.

For the sceptics, this is not the point. Mr Major's government hangs by the slenderest of threads. They have a powerful lever over the prime minister. They see in Emu a fundamental threat to the sovereignty of parliament. That must take precedence over both the facts of the present controversy and over loyalty to the prime minister. The pro-European Mr Clarke is seen as the fundamental obstacle to their ambition of standing aside from a single currency. Anything that damages the chancellor can only further their objectives.

One imagines Labour is congratulating itself richly on all this. The Budget has been overshadowed and the divisions within the Conservative party reopened. Mr Major, conspicuously absent during Mr Clarke's statement, has suffered the indignity of a dressing-down from the officers of the 1922 Committee of Tory backbench MPs. Not bad for a week's work. And a fair objective, you might think, for a party fighting for power after 17 years in the wilderness.

I wonder, though, if Mr Blair has asked himself what price he will pay for such tactical manouevres if Labour wins the election. His party, after all, says it is enthusiastic about a single currency. Gordon Brown, the shadow chancellor, claims to be as committed a European as Mr Clarke. As far I can see, Mr Brown has no particular quarrel with the chancellor's present negotiating stance.

In office, Labour would learn pretty quickly that conducting a sensible debate is rather harder than scoring political points. Mr Blair boasts he would return Britain to the centre of European influence. To do so, he would need allies in other parties, not least Mr Clarke. We have reached the stage where a policy of sensible engagement in Europe will be possible only with a prime minister imaginative enough to mobilise the cross-party majority in favour of such a course.

Philip Stephens

Over 50s losing out to young workers

By Robert Taylor, Employment Editor

Employers prefer to recruit young people than anybody over the age over 50 who has taken early retirement, says a survey published yesterday by the independent Institute for Employment Studies.

"Although some people welcome early retirement, many placed in this position still want or need to work," said Ms Sally Dench, the author of the report. "There seems to be an assumption as people reach a certain age they become less attached to work, have less to contribute and have less need to earn an income.

"This is frequently not the case; many older people are strongly attached to their work."

Mr Richard Worsley, director of the Carnegie Third Age Foundation, a pressure group championing the cause of older workers that commissioned the study, said: "The research shows how employers need to think carefully about the advice given to those leaving employment early."

The study covered a sample of 1,012 people who had taken early retirement since 1991 from seven large organisations, including three in the public sector. It presents a disturbing picture of what may be seen as a "wasted resource".

While 47 per cent said they had looked for another job, only half of them had found one that satisfied them.

Citizens First comes last

By Emma Tucker in Brussels

Fears of provoking another Eurosceptic outburst in Britain have prompted European Union officials in the UK virtually to blank out their own campaign to inform people about their rights in the single market.

So great is the sensitivity surrounding Britain's role in Europe that a simple information exercise, telling people practical things such as the fact that they no longer need to change their driver's licence when living in another EU country, is considered too controversial to air widely.

"This is Britain's new McCarthyism," commented one EU diplomat.

The campaign – known as Citizens First – is being given high-profile billing in virtually all other EU states with television and radio adverts as well as billboards informing people where to telephone for practical information.

These will be accompanied by widely available fact sheets on everything from how to look for jobs in other member states to guides on studying abroad.

Under single market legislation, EU citizens can work wherever they like in the Union. However, seeking work across frontiers is complicated, often because of the need to plug into local tax and social security regimes. The campaign, which lasts two years and will cost Ecu24m, ($30.7m) is designed to help people overcome such difficulties.

The campaign is to be launched in Brussels today by Mr Mario Monti, the commissioner for the single market, followed by launches in all the member states. In Spain, the Spanish prime minister will attend while in the Republic of Ireland President Mary Robinson will appear.

But in Britain there will be one press conference in London. "We thought it was not worth running the risk of provoking an outburst of Euroscepticism by putting large adverts up so near to a general election," said a commission official.

Dark mysteries

Scientists at an underground laboratory are seeking clues to the fate of the universe, says Bruce Dorminey

Is the universe ever-expanding, or will Big Bang – generally accepted as the way it all began – eventually be followed by a Big Crunch?

None of us will be around to find out, but that is not stopping scientists from trying to answer the question. And some important clues may come from an unlikely location – a laboratory under 1,500m of solid rock.

At the Gran Sasso Underground Laboratory west of Rome, Germany's Max Planck Institute for Nuclear Physics is using the inherently low radiation background to determine if subatomic particles called neutrinos have mass. If they do, their density could be a piece of the puzzle in explaining dark matter.

As the name suggests, dark matter is invisible to the naked eye, but its gravitational forces are evident from how galaxies rotate on their axes and orbit one another. Even after the Hubble Space Telescope's recent discoveries of more than 40bn galaxies, estimates are that at least 90 per cent of matter in the universe is unseen.

That is more than enough missing matter to determine whether the universe is ever-expanding or will eventually collapse. If the dark matter is sufficiently dense, scientists believe, the initial force from Big Bang will not be enough to prevent the universe from crushing down on itself.

Explanations for dark matter composition and existence include: baryonic (or ordinary) matter in the form of Machos (Massive Astrophysical Compact Halo Objects) which are Jupiter-sized planets, burnt-out stars and brown dwarf stars too small to ignite; Black Holes; and non-baryonic or subatomic matter, including particles such as Wimps (Weakly Interactive Massive Particles).

Wimps and black holes remain theoretical. But neutrinos have been proven to exist since the mid-1950s. And even though a neutrino might be a thousand times lighter than a single electron, their sheer numbers could account for a significant amount of non-baryonic dark matter.

"After the Big Bang when the first elements were formed, we know how much baryonic dark matter formed and can be in the universe," says Hans Klapdor-Kleingrothaus, the Gran Sasso experiment's director. "But we need more matter to understand the dynamics of galaxies and the inflation of the universe. There will never be enough baryonic dark matter to explain the behaviour of galaxy rotation. So we need something non-baryonic," says Klapdor-Kleingrothaus.

For six years, the Heidelberg-based institute has been investigating the sub-electron volt range (equivalent to the charge from one electron) for the electron neutrino's mass, using five Germanium-enriched detectors mounted in a 1sq m black box.

The experiment marks the first time a search for dark matter has been conducted with isotopically-enriched material. "The Kurchatov Scientific Institute in Moscow gave us the Germanium 76 in exchange for sharing in the results," says Klapdor-Kleingrothaus. "In the west, you would have to pay DM80m (£32m) for the Germanium. Our hardware for this experiment only costs DM10m plus technical costs."

Neutrinos are the by-product of the normal radioactive decay that is possible in the nuclei of 35 different isotopes. The process involves a neutron degenerating into a proton which then emits an electron and a neutrino. Faster neutrino decay signals a larger mass. If the mass is large enough, the signal of its decay would be detectable above the experiment's very low background rates and the researchers could determine the neutrino's mass. The neutrinos themselves are not seen, but their presence is measured by a process called Double Beta decay. At present the Heidelberg-Moscow experiment for its detection is the world's most sensitive.

"Now we can only say that the electron neutrino has a mass smaller than 0.5 [of an electron volt]," says Klapdor-Kleingrothaus. "How much smaller we don't know. By contrast, a single proton is 1bn electron volts. We're talking about something extraordinarily tiny. But because there are so many, even on that scale it would have an effect on gravity in the universe."

Meanwhile, a consortium of French research groups led by France's CNRS (National Centre for Scientific Research) has been searching for baryonic dark matter in a project called Eros (Experiment for the Research of Dark Objects). Begun two years ago using a 60cm telescope at the European Southern Observatory's La Silla installation in Chile, Eros observes stars in the Large Magellanic Cloud, a small satellite galaxy of the Milky Way.

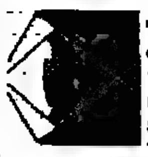
The idea is that when a passing Macho crosses a star's line of sight it causes "gravitational lensing" for the earthbound observer – light bends around the Macho, creating an observable brightening of the more distant star. The French team has just begun Eros II, a year-long follow-up experiment which is also at La Silla and uses a 1m telescope. Future plans call for use of a 3.6m ESO telescope at the same site.

"After three years of observing brown dwarfs, we've detected mass that accounts for no more than 20 per cent of dark matter," says Marc Lachieze-Rey, an Eros project collaborator and director of research at the CNRS's Saclay laboratory near Paris. Eros II, he says, will try to detect a wider range of mass and prove conclusively whether or not Machos account for only a small percentage of dark matter.

As for the Heidelberg-Moscow quest, it will continue for five to 10 more years. But even if neutrinos are proven to be dark matter they would at most make up only 30 per cent of the missing material. With Machos probably making up a further 20 per cent, that leaves researchers only halfway to solving the mysteries of dark matter, and still further from answering the big question about the fate of the universe.

Viewpoint · Ann Chambers

Break the barriers to Russian collaboration



The cold war created barriers which were detrimental to scientists in both the east and west. Even the best minds become sterile if they are isolated from fresh ideas and new techniques.

A futile science and technology war was waged for more than 50 years, but now there are opportunities for knowledge exchange and joint research. In the interests of world science they should be wholeheartedly embraced.

There are also strategic considerations, as scientific developments affect economic progress. Western investment in Russian science would help generate economic growth. And by making firm commitments the west would ensure greater political and economic influence in Russia.

The plight of Russian science is now familiar to us. Federal government spending on science fell 80 per cent in real terms between 1991 and 1994. Top institutes have been forced to close and rare collections are being illegally traded by desperate scientists.

However, the most serious problem is the brain drain. It is estimated that between 70,000 and 90,000 scientists emigrate from Russia every year. The average age of those leaving is 31 to 45, the most creative years of a scientist's life.

After the collapse of the Soviet Union, cash seemed to be the biggest problem. George Soros, the international financier, was regarded as a hero in Russia as he seemed to be trying to alleviate the situation single-handedly, dishing out more than $100m by early 1994.

However worthy, his aid was a one-way process and did not substantially help to develop east-west relations.

Organisations which have realised the potential benefits of collaboration, like the Royal Society and British Council, emphasise that it is in the world's interests to keep Russian scientists in work because of the high calibre of individuals and because Russian and British scientific knowledge complement each other.

Scientist Paul Yoxon expresses a similar view. His joint project in the Central Forest Area in Russia has led to a fruitful exchange of information on conservation techniques. Yoxon is particularly interested in biosphere reserves, a form of designated conservation area which was effective in Russia, but he also hopes to influence the Russian government's policy on conservation through passing on British experiences.

Bilateral collaboration is undoubtedly valuable to both sides, even on a small scale, for it generates mutual trust and understanding. The London Initiative on the Russian Environment was set up to facilitate environmental assistance to Russia through the involvement of government, business, the academic community, non-governmental officials and research establishments. Although its activities have been limited because of a lack of funding on the Russian side, David Shreeve, one of the founders, is still encouraged by the thriving goodwill and interest gained from conferences and visits. Such initiatives are important as personal contact is the key to developing good relations.

It is estimated that between 70,000 to 90,000 scientists emigrate from Russia every year

However, the most substantial rewards are to be reaped from multilateral collaboration and this is where the west's future efforts must be directed. With expertise and resources pooled from more nations, the potential for progress is greatly enhanced.

The European Union realised this and in 1993 set up an association to support scientific co-operation. The quality of research carried out under the scheme has ensured its continuation until at least the end of 1996, and it is vital that it continues longer still.

Natural resources offer opportunities for successful joint research. Lake Baikal, the world's deepest freshwater lake, is a unique site for many fields of investigation but, due to a lack of funds, its preservation has been threatened. A scheme involving institutions from six countries aimed at ensuring the lake's ecological survival and continuation of important research was initiated by the Limnological Institute in Irkutsk.

Participants such as David Jewson of Ulster University believe that although the scheme is continually on tenterhooks, it is worthwhile because of the enormous goodwill generated. And with the scientific challenges offered by the lake, there is a common determination to continue with research on this valuable site.

However, the handful of schemes in place is insufficient either to preserve Russia's precious resources or to woo its scientists back to research.

Russian military specialists, particularly, have potentially dangerous knowledge and by collaborating with the west they can learn to redirect their skills and sell their know-how. The International Science and Technology Centre, established in 1992 by the Russian Federation, Japan, the US and EU, focuses on this area so scientists can, for example, apply knowledge of chemical weapons to biomedical fields.

Scientific collaboration between Russia and the west will lead to progress in science and technology, economic growth and should also bring us closer politically. Most importantly, it offers the opportunity to get to know our neighbours. Once we get used to working together we will become indispensable to each other.

Ann Chambers is a freelance journalist, with a special interest in Russian affairs.

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
NO 006250 OF 1996
IN THE MATTER OF
FULL CIRCLE INDUSTRIES PLC
AND IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1 November 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-mentioned Company by £5,963,000 from £5,963,000 to nil.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before The Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 4th day of December 1996.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the Company's share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 19th day of November 1996

DMB LUPTON ALSOP
125 London Wall, London EC2Y 5AE
Tel 0345 262728 Ref CJW
Solicitors for the above named company

LAW

Market abuse fine upheld

EUROPEAN COURT

The European Court of Justice has rejected an appeal by Tetra Pak, the Swedish packaging company, against a judgment of the European Court of First Instance which upheld an Ecu75m ($96m) fine imposed by the European Commission for abuse of its dominant position contrary to European competition rules.

Tetra Pak makes cartons and carton-filling machines for packaging of liquid or semi-liquid food products. It has between 90 and 95 per cent of the aseptic markets and between 50 and 55 per cent of the non-aseptic markets. Its two closest competitors hold 27 per cent and 11 per cent.

The abuses found included the tying of non-aseptic machine sales to carton sales, and predatory pricing of non-aseptic machines and cartons.

Tetra Pak's first submission concerned the finding that its activities in the non-aseptic markets, where it was not dominant, could infringe Article 86 of the Treaty of Rome because of a link between that market and the aseptic market, in which it was dominant.

The Court of First Instance had ruled that the company's position gave it freedom of conduct on the non-aseptic market compared with other competitors, which imposed on it a responsibility to maintain genuine competition.

Tetra Pak argued that conduct on a market other than the dominated market, if not intended to reinforce the position on the dominant market, was not covered by Article 86.

The European Court upheld the junior court's reasoning that the responsibility imposed on dominant companies under Article 86 must be considered in the circumstances of each case which shows a weakened competitive situation.

Although Article 86 gave no explicit guidance to determine the markets on which an abuse can take place, it presupposed some link between the dominant position and the abuse.

In this case, the various materials involved were used for packaging the same basic liquid products, demonstrating that Tetra Pak's customers in one sector were at least potential customers in the other.

Accordingly, the Court of First Instance had been right to apply Article 86 to Tetra Pak's position and behaviour on the non-dominated, but closely associated, non-aseptic market.

Tetra Pak also argued that as Article 86(d) prohibits only tying of sales of further products or services which, by their nature or commercial usage, have no link to one another, it could not be abusive to tie carton sales to machines with which there was a natural link.

The court disagreed, ruling that tied sales may be abusive even where there is a natural link or commercial usage, if the tying is not objectively justified.

Nor could Tetra Pak justify such restrictions in this case on grounds of product liability, protection of public health or its own commercial reputation.

Finally, the court rejected Tetra Pak's challenges to the findings of abuse by predatory pricing.

The court reaffirmed its earlier case law in the Akzo case that sales below average variable cost were abusive irrespective of motives and that sales below average total cost were abusive if motivated by an intention to eliminate competitors.

It also rejected Tetra Pak's contention that such actions were not abusive where there was a reasonable prospect of later recouping the losses incurred by such sales. Predatory pricing may be penalised whenever there is a risk that competitors may be eliminated.

C-333/94 P: Tetra Pak International SA v Commission, ECJ 5CH, November 14 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Revolving door at Indian broker

WI Carr, recently voted the number one broker in India in an Asiamoney poll, has paid the price of success with the exodus of a series of senior personnel on the subcontinent over the last few months.

On the research side, the firm has lost four of its most experienced analysts. Divesh Kumar, the WI Carr strategist, has joined Daewoo Securities as head of research; Piyush Mnbayi, auto sector analyst, has moved to Lehman Brothers in Hong Kong; and Prakash Joshi and Prasanna Someswhar, respectively petrochemicals and banking analysts, have decamped to Crosby Securities which also was recently hit by a bout of staff defections.

The India sales team, which also topped the Asiamoney poll for the country, has also been hit.

Neil Kennedy, the firm's market maker for South Asian equities in London, has joined Peregrine Securities and Sanjay Shah, its senior dealer in Bombay, has shifted across to Morgan Stanley. Punit Khanna, sales representative in Hong Kong, also handed in his notice last week.

WI Carr has hit back with some poaching of its own. Brian Brown has joined from Merrill Lynch to head sales for the subcontinent in Hong Kong, and it was announced yesterday that Mark Baughan had been recruited from UBS in Hong Kong as head of research. Two new sales staff have also been recruited in Bombay.

Brokers say the staff volatility at WI Carr reflects a broader shortage of experienced broking talent in India as the country has opened up to international houses. The result has been a sharp rise in salaries over the past two years, and much movement between houses.

There is no end in sight to this volatility, as WI Carr prepares recruit further and new entrants to the market continue to poach staff.

Tony Tassell, Bombay

Agco's new driver

Robert Ratliff, chairman of Agco of the US, one of the world's four biggest tractor makers, is standing down from his additional role at the company of chief executive.

This job is being taken by Jean-Pierre Richard, who joins Agco from the job of president and chief executive of the Tanneseee-based Insitufoam Technologies, a big supplier of underground piping systems.

Richard, 53, is no stranger to the tractor business. Prior to joining Insitufoam in 1993 he was president and chief executive of Massey Ferguson, the US tractor company bought by Agco as part of its drive to become a member of the big four tractor makers – which also include John Deere and Case of the US, and New Holland of Italy.

The Atlanta-based Agco was set up in 1990 by Ratliff, 65, a highly experienced farm machinery executive who has stewarded the company's growth mainly through a policy of buying up other companies.

Peter Marsh, London

Toronto succession

Charles Baillie, 57, who takes over as chief executive of Toronto Dominion Bank on February 1, wants to expand discount brokerage beyond North America once the bank has fully digested the US$501m acquisition of Waterhouse Investor Services in the US. He will become chairman as well as chief executive when Richard Thomson retires early in 1998.

Toronto Dominion, Canada's fifth largest bank, is now the world's third biggest discount broker and Baillie has his eye on the top spot. His main targets outside North America will be Australia, Britain and several Asian countries.

Baillie believes that discount brokerage, mutual funds (unit trusts) and other non-traditional banking businesses hold the key to future growth.

A Harvard MBA, Baillie joined Toronto Dominion in 1964 and left in 1969 for a three-year stint in the mutual fund business. He returned in 1972 to head Toronto Dominion's US division and became executive vice-president of investment banking before stepping up to president in 1995. "I've got six to eight years to make a real impact," he says. "But I don't see a merger with another big bank within that period."

Robert Gibbens, Montreal

Goulding goes home

Marrack Goulding, the highest ranking British official in the United Nations secretariat, is to succeed Lord Dahrendorf as head of St Antony's College, Oxford, one of the leading centres for the study of international relations in Europe.

The college elected him earlier this month, but the announcement was delayed at his request until after last week's vote on a second term for the incumbent UN secretary-general, Boutros Boutros Ghali. Goulding – who had previously applied for the headship of two other Oxford colleges, as well as London's School of Oriental and African Studies – did not want his departure to look like a vote of no confidence in his boss.

As under-secretary general for political affairs, and before that for peacekeeping, Goulding, a former British ambassador to Angola, has been one of the most influential UN officials in the most turbulent decade of its history.

Margaret Thatcher, then British prime minister, intervened personally to secure his appointment when Sir Brian Urquhart, the "father of peacekeeping" retired in 1985. Times have changed since then and it is far from certain the UK will be able to insist on replacing him with another Briton at such a senior level.

Edward Mortimer

ON THE MOVE

■ Barry Ford, currently with Southcorp Holdings, succeeds Les Cullen as finance director of GOODMAN FIELDER, Australasia's biggest food manufacturer.

■ Professor W. Zegveld, 66, L. Hermans, 45, and W. Mak, 49, join the supervisory board of KPN, the privatised Dutch posts and telecoms utility. They are respectively economics professor at the Amsterdam Free University; Queen's Commissioner in Friesland; and managing director of Banque de Suez Nederland.

■ Jean-Gerard Claudon succeeds Jean-Louis Beffa as chairman of the supervisory board of Poliet, the French building materials company. Beffa becomes deputy chairman, while Claudon will remain a senior vice-president of SAINT-GOBAIN – which earlier this year gained control of Poliet – until he retires on July 1, 1998. Emile François becomes Poliet's chief operating officer from January 1, president and chief executive designate, and senior vice-president of Saint-Gobain Group.

■ John Gavin Jr. becomes a vice-president and controller of DATA GENERAL CORPORATION, the US computer manufacturer. Robert McBride, the previous controller, takes the role of treasurer.

■ William Salter, 53, president – hardlines, succeeds Marvin Stern, 60, as president – home stores at SEARS ROEBUCK, the US retail group. The move, which gives Salter responsibility for the company's off-the-mall stores, coincides with a reorganisation of the department stores arm, where Robert Mettler, 56, is promoted to the new position of president – merchandising.

■ Paul Walters, a former president of Canada's largest discount chain Zellers, has been appointed chief executive of SEARS CANADA, the country's second-biggest department store chain, and will become chairman in January on the retirement of Russ Davis. Walters, 42, replaces Don Shaffer who is returning to the US parent. Jim Clifford, former vice-president – finance, rises to president and chief operating officer.

■ CAPITAL ALLIANCE, the South African financial services group set up by Mzilikazi Khumalo, has poached Arnold Shapiro from Old Mutual, the country's largest life assurer, as chief executive of its asset management subsidiary. Shapiro was previously portfolio adviser to the OLD MUTUAL South Africa Trust, a UK-listed vehicle which concentrates on smaller industrial and financial stocks. Peter Linley, a nine-year Old Mutual veteran, is promoted to take Shapiro's place.

■ Gerhard Full is to succeed Hans Meinhardt as management board chairman of LINDE, the German engineering group, from May next year, when Meinhardt will be put forward for election as supervisory board chairman.

■ Valere Croes, chief executive of Fortis Belgium, is relinquishing his executive duties at the Dutch/Belgian insurance and banking group from the end of the year. Croes will remain a director of Fortis AG and a member of its supervisory board. Herman Verwilst, 49, currently management committee chairman at ASLK-CGER Bank, succeeds him.

■ Mendy Erad, 47, managing director of Clal Electronic Industries and a director of Scitex since 1995, succeeds John Georges as vice-chairman of the SCITEX CORPORATION board.

■ Bruce Harrison becomes president of IRIS GRAPHICS, a Scitex subsidiary, succeeding Bernard Segaloff who is retiring at year end.

■ Peter Mihatsch, a board member of Mannesmann, the German conglomerate, becomes management board chairman at DBKOM, the telecoms division of Deutsche Bahn, the railway company in which Mannesmann has a significant stake.

■ John Fairfax, chairman of Rural Press, joins the board of Australia's WESTPAC BANKING from December 5.

■ Gabriele Falco, chairman of BMW Italia, becomes the first Italian to join the executive board of BMW, when he takes responsibility in February for sales throughout non-German speaking Europe.

■ Thomas Sturgess has resigned as chairman, president and chief executive of UNITED STATIONERS, the largest wholesaler of business products in the US, but will remain a director. Frederick Hegi Jr. succeeds him on an interim basis.

■ Michael Walls joins BZW, the investment banking arm of Barclays Bank of the UK, as managing director of investment banking, New Zealand.

■ Christopher Iggo rises to chief economist of BZW SECURITIES in New York.

■ Will Glasgow has been named president and chief executive of the CELLNET/BECHTEL joint venture to market and operate CellNet's telecom system outside the US. He was previously co-chairman of Shaw, Glasgow & Co., a US venture capital firm.

■ Geoffrey Dennis has left BEAR, STEARNS in New York, where he was head of emerging markets equity research, to return to London and his old employer, HSBC James Capel, as global emerging markets strategist.

■ Steve Grenville has been named one of two deputy governors at the RESERVE BANK OF AUSTRALIA, filling the vacancy left when Ian Macfarlane rose to governor in September.

■ Yousef Hussein Kamal, an under-secretary at the Doha ministry of finance, has been appointed vice-chairman of QATAR GENERAL PETROLEUM CORPORATION. Abdullah bin Hamad al-Attiyah, the energy and industry minister, remains chairman and managing director.

■ Ghazi Abdel Jawad has resigned as general manager of GULF INTERNATIONAL BANK, which belongs to the six member nations of the Gulf Co-operation Council. Jawad, who has held the post since 1984, becomes an executive director of the Arab Banking Corporation, from February 1.

■ Alain Louvel has been appointed chairman of PARIBAS Bank of Canada. Edward Speal becomes president and chief executive.

■ Robert Cheng has been appointed Dublin-based vice-president and managing director for Europe, the Middle East and Africa, by GATEWAY 2000, the US-based personal computers direct sales group.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

CONTRACTS & TENDERS

CONTRACT NOTICE

Greater Nottingham Training & Enterprise Council (GNTEC) is inviting tenders for four services which are to be delivered in the City of Nottingham and the districts of Broxtowe, Gedling, Rushcliffe and Hucknall.

Three of the services fall within CPC No. 92 with two of these being for the provision of vocational training. These two are included in one tender document. In summary:

1) Vocational Training Programmes for long term unemployed adults, currently known as Training for Work (TFW). The objective is to provide a route into employment.

2) Vocational Training Programmes for young people, currently known in the GNTEC area as Get Ahead. The objective is to enable young people to obtain National Vocational Qualification at level 2 or above.

The third service which falls under CPC No. 92 is the Skills for Small Businesses (SFSB) Programme and relates to the provision of consultancy support for participating organisations.

The fourth service relates to the provision of consultancy support and falls within CPC Nos. 865 and 866. In summary the requirement is for the provision of consultancy support to companies working towards achieving the Investors in People standard.

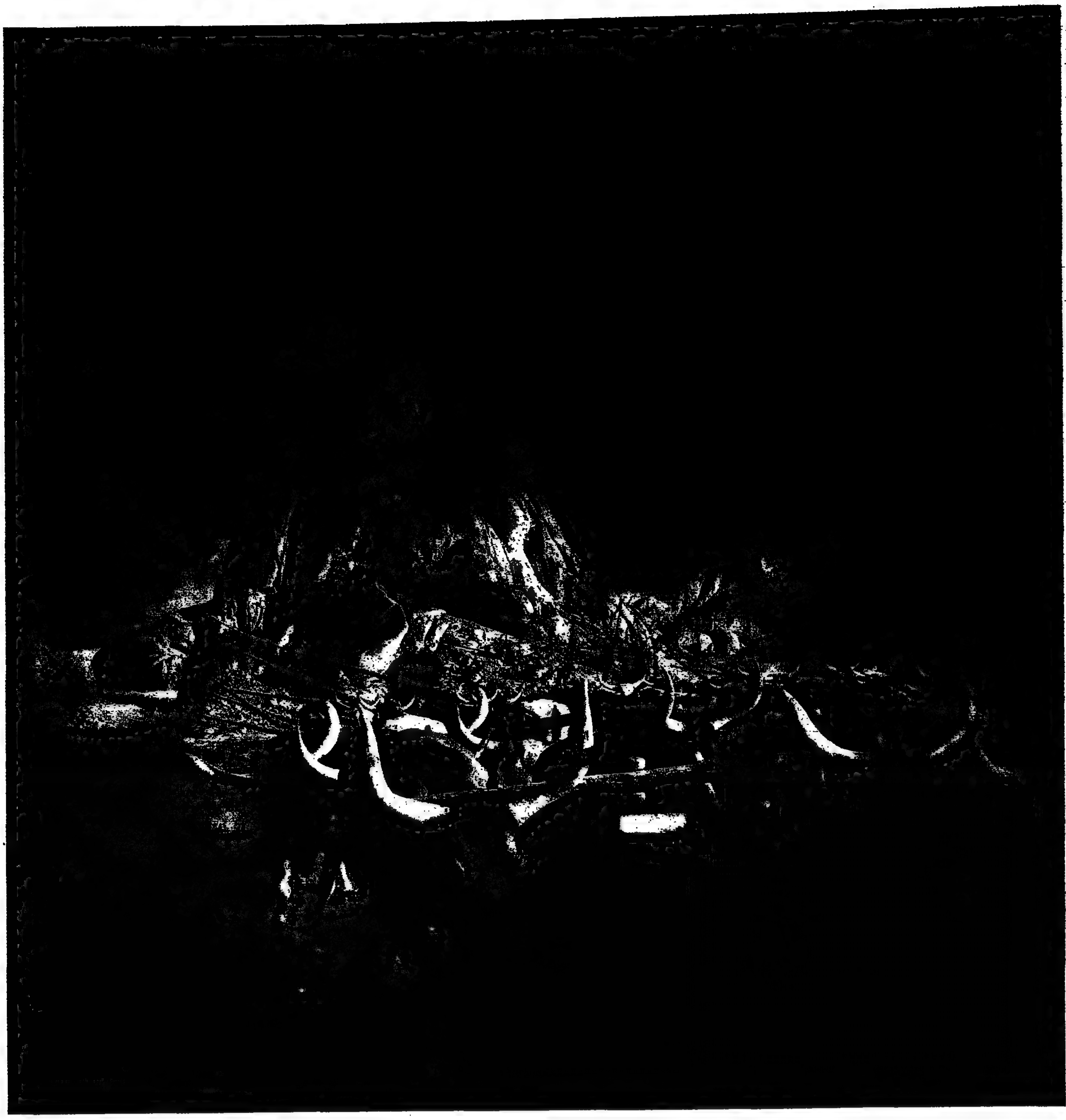
In all cases contracts are awarded for a maximum period of one year commencing from 31 March 1997.

Tender documents may be inspected free of charge at GNTEC between 9.00 am and 4.00 pm Monday to Friday or purchased at £75.00 for the combined TFW and Get Ahead document and £25 each for the Investors in People and SFSB documents (cheques made payable to Grater Nottingham Training and Enterprise Council).

All requests must be made in writing, detailing registered company name, address and number, by 16 December 1996. Requests, accompanied by a cheque for payment, must be sent to:

Ms W Bilynska, Greater Nottingham Training & Enterprise Council,
Marina Road, Castle Marina Park, Nottingham NG7 1TN, UK.
Tel: (0115) 941 3313 Fax: (0115) 948 4589.

The final day for receipt of completed tenders (in writing only) at GNTEC premises is Monday 13 January 1997 by 10.00 am.



ARTS

The more we look back over the painting of the 20th century, the more the old, easy critical certainties of status, influence and succession fall away and the more complex the picture becomes. This is particularly true of American painting.

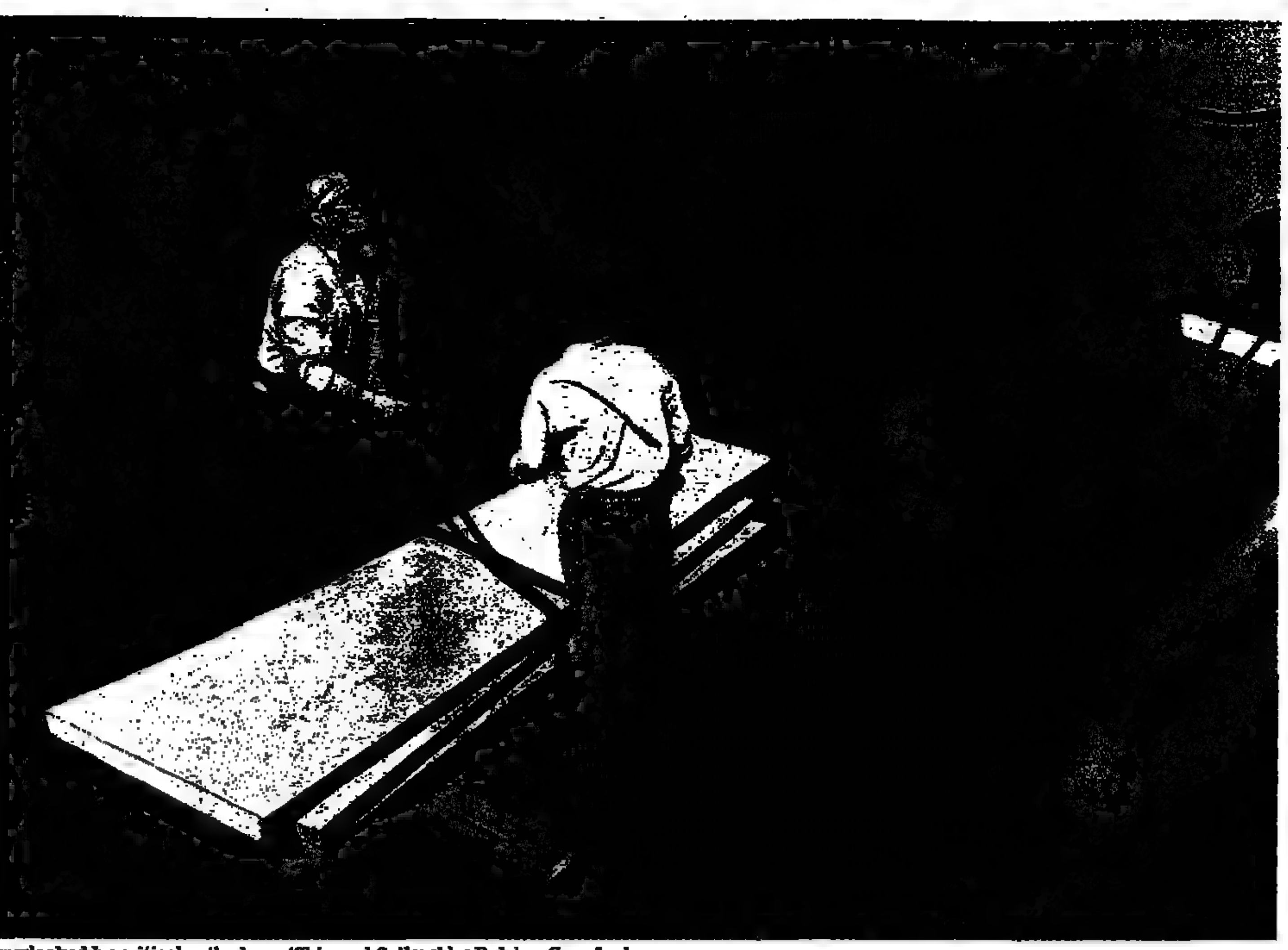
By the end of the 1960s, the view was well established that there was no serious American painting before it suddenly appeared in New York around 1950. This theory was put forward by an energetic American cultural diplomacy, propounded by critics such as Clement Greenberg, encouraged, we now know, by the CIA, and even now sustained by the international market.

Not that there was nothing of quality in the work of the 1950s and '60s from what came to be known as the New York School of Abstract Expressionism, and its successors – Rothko, Pollock, de Kooning, Johns, Rauschenberg, Stella, Louis, Noland and their chums. But its instantaneous and unquestioned pre-eminence, even within the context of American painting itself, let alone internationally, was always a nonsense.

By the end of the 1970s as the importance of the early work by these latter-day masters – and their early influences – was finally recognised, this nonsense was being questioned. The truly American context of their work, however, was still fudged. These artists were still seen as a generation newly-arrived and having-it-both-ways, rejecting the European tradition that formed them to produce for the first time a truly American art. A recent major survey of 20th-century American painting even went so far as to set up Marcel Duchamp as its founding father. Such are the narrow snobberies of provenance and influence.

Any exhibition which looks beyond that orthodoxy takes on an importance quite disproportionate to its actual size or scope. The small but substantial show now at the Crane Kalman Gallery makes the point admirably.

It does not look at the figurative strain in American painting, coming out of Impressionism and Expressionism with artists such as Sloan, Bellows, Marsh or Hopper. Rather it looks to the self-conscious Modernism of the inter-war generation, sophisticated and cosmopolitan, clearly well aware of the abstract and near-abstract developments of Cubism and Constructivism, Dada and Surrealism, Picasso and Léger, Miró and Kandinsky, but happy and self-confident enough to get on with it in its own way.



Overlooked by critical orthodoxy: 'Ship and Sailors' by Ralston Crawford

Myth of the miracle birth

William Packer on the spontaneous combustion theory of US painting

These paintings are not large, but then we easily forget just how recent the cult of the vast canvas is. They are none the less authoritative for that. One or two of the names are reasonably familiar – Arthur Dove, Stuart Davis, Burgoyne Diller, Charles Sheeler – if only by an often invidious and patronising comparison with what was to come.

The more we see of Davis, for example, the more substantial a painter he becomes, so much more than the mere ground-breaker for Pop-art of the conventional story. Could Jasper Johns have done without him? It is Davis who emerges as the more subtle, complex and, to put it bluntly, the better painter. So too with Sheeler, a true pioneer of hard-edge and minimal painting, and all the more interesting for never abandoning the architectural reference. Would we have had a Lichtenstein, a Wesselman or Stella without him? And where does Rothko stand in relation to Dove, or Newman to Diller?

The less-familiar names, at least to me, are no less interesting and convincing – Charles Shaw with his acute variations upon Cubism; George Morris with solid, industrial, Leger-like Abstraction. Ralston Crawford too, with his marine and dock-side imagery, looks plainly at Leger, yet in no sense of imitation. Indeed to an English or European eye there is to his work more than a little of Wadsworth, Nash or Helion. The true point is not that these Americans were mere followers and second-raters, but simply artists of their time.

The fact is that a truly indigenous school of modern painting, far from having to await a miraculous birth and an authorising visitation by Clement Greenberg some time around 1950, was already well established in America long before the war. And it, in its turn, had followed upon American example established long before that. Even more to the point, here are the very artists against whom those incipient abstract expressionists would have measured themselves as young artists in the 1930s and 1940s, for they were well enough known.

Their subsequent critical eclipse even while the younger artists they taught or with whom they showed were enjoying conspicuous success, was cynical, arbitrary and unfair. It would seem that in America at last some critical recompense is being made. Retrospective studies of some of the major figures are in train or have lately taken place. The critic, Carter Ratcliff, who has contributed to the catalogue of the Crane Kalman exhibition, written of "1930s American Abstract Painting. An Overlooked Period of Dynamic Innovation." Indeed.

American Modernism 1920-45: Crane Kalman Gallery, 178 Brompton Road SW3, until December 6: sponsored by Trans Euro Worldwide Movers.

Huddersfield Music Festival

Navel-gazing Stockhausen

With the weather only slightly worse than usual, the annual Huddersfield Contemporary Music Festival is in full swing again. There is really nothing like it in the British musical calendar; though Michael Berkeley has revived the Cheltenham Festival as a new-music showcase, that is much less specialised – – and it happens in July.

Huddersfield is for the intrepid. As usual there are many dedicated music students and budding composers from various countries. At weekends the concerts go on from mid-morning to late evening, and there are special exhibits of established composers: this past weekend Stockhausen, Sofia Gubaidulina and the Franco-American Betsy Jolas, all of whom were present, and next weekend the late Morton Feldman. Plenty of room is left for other music, not to mention music theatre, films and what-have-you.

The Stockhausen exhibit was the largest, comprising a dozen works plus a film about his 1995 "Helicopter String Quartet", and it was worrying. Like virtually everything he has composed since 1977, the "Helicopter" piece is to be a part of one of the seven operas of his grandiose, visionary *Licht* cycle. We heard several such fragments, mostly arranged as solos or duets for his close colleagues Kathinka Pasveer and Suzanne Stephens and his son Markus (respectively flute, clarinets and trumpet) with electronics.

On the other hand, there were famous examples of his pre-*Licht* music. The 1956 *Gesang der Jünglinge*, widely held to be the first real electronic masterpiece, echoing around the Huddersfield Town Hall; the groundbreaking *Klavierstück X*, completed in 1961; and the intricately organised two-piano, 75-minute *Mantra* from 1971 (superbly delivered by Ellen Corver and Sepp Grotenhuse: less fierce than the Kontarsky brothers used to sound in it, but accurate, elegantly witty and playful) – all these retain the kick of radical inspiration.

By comparison the *Licht* spin-offs often sounded like indulgent, sterile experiments. Stockhausen used a whole lecture to tell us how brilliant it was of him to have reduced melodic formulae from *Licht* to microtonal intervals, playable only by his virtuoso colleagues. We cocked our ears to discern the results, in *Xi* and *Ypsilon*: tiny, keening *glissandi*, artfully coloured, punctuated by heavy breathing and clicking keys, with arch gestures and poses.

Expressive chiefly of navel-gazing, I thought. Stockhausen's other recent vein, the strange, quasi-tonal music that began with his Zodiac pieces in 1975, seems far more fruitful and attractive. But it is much too soon to make up one's mind about this 68-year-old maverick: at the very least, we had better wait for the completion of *Licht*, early in the next millennium.

David Murray

Theatre/Simon Reade

Suicide thwarted

All Things Considered is a new old-fashioned play commissioned by impresario, Michael Codron, directed by Theatre of Comedy director, Alan Strachan, and championed by Alan Ayckbourn. So it is a surprise that amongst these mature heavyweights, the playwright Ben Brown is an affable writer in his late 20s.

Brown tackles the potential of suicide. A professor of philosophy is attempting to apply his ethics. He sits at his desk in the gloom, with a plastic bag on his head, about to swallow an overdose of sleeping tablets with a tumbler of whisky – when a voice on the answer-phone interrupts: "Hi, David! How's life?" Tragi-comic juxtaposition, compounded by word-play, is Brown's chief skill.

A stream of colleagues pour through the professor's door, thwarting his efforts with their own humdrum anxieties, their entrances unwittingly preventing his exit. His mother's recent funeral, the publication of his final book, *Matters of Life and Death* (coinciding with the launch of his ex-wife's scurrilous autobiography), his dog, Plato, conveniently put down, he has chosen the eve of his 50th birthday to die – the very day his rooms are being rewired for the first time in half a century.

Besides all the clever point-scoring about the ethics of selfish suicide, Brown panders to chauvinist prejudices without the saving grace of fashionable detachment. There is an English don who impregnates female students, an American academic nymphomaniac, a deputy editor of the *Guardian*'s Women's Page who writes about female orgasms, and a dowdy librarian whose love for the professor is unrequited. Such women are twice, casually, dubbed "bitch" by the men. These stereotypical attitudes are not quoted ironically but derived from a discredited boulevard genre. You know that when the tame line, "who believes in God these days?" prompts the entrance of a chaplain.

Brown can write intelligently and clearly knows his dramaturgy. But why such a young man should be writing a mid-life crisis play rather than sophisticated youthful satire, say, is not a philosophical question but a psychological conundrum – of the kind lacking in this emotionally dry drama.

At the McCarthy Studio, Stephen Joseph Theatre, Scarborough, until December 14 (01723-370541).

Pop/Antony Thorncroft

Wild night turns tame

Cross-over artists are tricky customers – their music is designed to appeal to distinct coteries of fans. Often, with bland compromises, they end up making you feel confused and, well, cross. Gloria Estefan, an American – Cuban who wowed the Latin community in Miami before conquering the world, is perhaps the supreme example, so apparently universal in appeal that she got to open the Atlanta Olympics. She progressed to Wembley Arena at the weekend.

She certainly comes on like a star – transported to the stage in a draped pod which glides over the audience before depositing her in the midst of an encouragingly large ensemble of percussionists, brass players, and backing singers, the necessary trappings of a full-blown Latin band.

And immediately we are up and running with "Conga", which has the rush of a ton of tequila. All the excitement of the music, the driving trumpets, the rock-steady rhythm of three drummers, the exotica, the passion, the animalism, comes through. It promises to be the wild night in north west London.

It is not. As soon as Estefan switches to English, to her soupy ballads, the mood changes. In two hours she moves effortlessly between the sublime and the sick-bag, from the mass romp of "You'll be mine (party time)" in which Wembley approached an illegal *cabana* on pay night, to scenes of inexcusable tweeness.

The problem apparently is a long and happy marriage to husband and manager Emilio Estefan. You can just about take the family snapshots, going back many generations, of happy Estefans enlarged on the giant screens; you try to swallow the marriage guidance talks; but when her two-year-old daughter is handed up on stage to be crooned over with "Along came you" her critical reputation just melted away.

Almost as bad were an intrusion of a trio of Cuban dancers who looked like graduates of the Lionel Blair School of Dancing. Amazingly the attempts at ethnicity seemed bogus. Estefan was fine when she kept to one vocal tradition – the Latin, in songs of the patriotic heart, like "Mi tierra", and in party stompers, like "Turn the beat around" and the ebullient encore. When she tried to embrace humanity she came across as a 39-year-old Spanish mother who has kept a trim figure but who regrets her wild youth. Very much a Spanish omelette, good in parts.

Concert

Rattle tackles Parsifal

Trust Simon Rattle to turn a single concert into a major occasion. The anticipation that marks any step forwards in his career was enough to draw the great and the good of the arts world to his Barbican concert last Friday.

Early next year Rattle will conduct his first Wagner opera, when he goes to Amsterdam for *Parsifal* with the Netherlands Opera, and this Barbican programme was a chance to sample what it might be like in advance. After a less than magical performance of the Prelude to Act 1 (the Barbican acoustic is a world away from Bayreuth), we had Act 3 complete, well rehearsed, with good soloists and a wholehearted, if untidy, chorus of male voices.

Rattle has come a long way in the music he wants to perform. A conductor who made his name primarily in the 20th-century repertoire, declaring that he had not grown up with the Austro-German classics, has been patient in choosing his moment to progress to some marvellously spontaneous Mozart, to unbuttoned Beethoven, and recently to Bruckner and Wagner.

It was good sense to test the Wagnerian waters with his own City of Birmingham Orchestra. Rattle's *Parsifal*, at least here with the CBSO, characteristically had his stamp on every bar. He has the time and the rapport with his own players to work at the sound he wants (though some of the big choral passages were rendered quite congested in this hall) and to bring the music alive phrase by phrase.

This was flexible Wagner, now impassioned, now subsiding, now glowing with radiance. One longs to hear Rattle's *Tristan und Isolde*. Perhaps the performance was too immersed in feeling to satisfy believers in the long-breathed Wagnerian tradition, but its open-heartedness would be difficult to resist. Somehow there seemed to be more special moments than usual, like the other-worldly twist of harmony as Gurnemanz recognises the holy spear or the near ecstasy at his anointing of Parsifal.

Robert Lloyd's lyrical bass sensibly rode on the orchestral sound, rather than trying to punch through it, a compassionate Gurnemanz, close cousin in worldly wisdom to Hans Sachs. For a sure and well-produced Wagnerian tenor, if not actively heroic, Poul Elming is without a rival at the moment, but his Parsifal failed to project any specific response to the text or character. Wolfgang Schöne sang Amfortas with sturdy, long vocal lines, until he started to bark, more like a Klingsor, near the end. All three are due to be in Amsterdam with Rattle in January.

Richard Fairman

Sponsored by Hoechst.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Moscow Chamber Orchestra: with conductor Constantine Orbelian and pianist Karin Lechner perform works by Prokofiev, Shostakovich and Tchaikovsky; 8.15pm; Nov 28

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● The display of power: this exhibition features costumes and textile from the 18th and 19th century showing signs of power and status. Among the objects is a christening robe worn by Princess Wilhelmina, Princess Juliana, Princess Beatrix and Prince Willem-Alexander; to Mar 2

■ ATHENS

CONCERT
Athens Concert Hall Tel: 30-1-7282333
● BBC Symphony Orchestra: with conductor Andrew Davis and violinist Dmitri Sitkovetsky perform works by Elgar, Bax and Bruch. Part of the European Festival of Orchestral Work; 8.30pm; Nov 27

■ COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Danish National Radio Symphony Orchestra: with conductor Kurt Sanderling perform Bruckner's Symphony No.7 in E major; 8pm; Nov 28

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● Hamlet: a choreography by Peter Schaufuss to music by Sort Sol and Langgaard, performed by the Royal Danish Ballet and the Royal Theatre Orchestra; 8pm; Nov 27, 28

■ FRANKFURT

DANCE
Jahrhunderthalle Hoechst Tel: 49-69-3601240
● Rambert Dance Company, London: perform Jiri Kylian's Petite Mort to music by Mozart, Christopher Bruce's Swan Song to music by Chambon, and Rooster to music by the Rolling Stones; 8pm; Nov 29, 30

■ HELSINKI

EXHIBITION
Amos Anderson Art Museum Tel: 358-9-640221
● Silja Rantanen - Good places: exhibition of works by the Finnish contemporary artist Silja Rantanen. Her starting point is figurative, but she thinks that the subject usually improves with reduction, resulting in a mixture between figurative and abstract art. Rantanen chooses to paint man-made objects, artefacts, rather than nature; to Dec 8

OPERA
Opera House Tel: 358-9-403021
● Il Barbiere di Siviglia: by Rossini. Conducted by Kari Tikka and performed by the Finnish Opera. Soloists include Klas Hedlund, Jukka Romu and Riikka Hakola; 7pm; Nov 28

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● Academy of St Martin in the Fields: with conductor Neville Marriner and pianist Alfred Brendel perform Beethoven's Symphony No.7 in A, Op.92 and Piano Concerto No.5 (Emperor); 7.30pm; Nov 29
Royal Festival Hall Tel: 44-171-9604242
● BBC Concert Orchestra: with conductor José Serebrier, violinist Tasmin Little and soprano Carole Farley perform works by Mozart, Schubert, Bruch, Fauré, Canteloube and Bizet; 7.30pm; Nov 27

EXHIBITION
Victoria & Albert Museum Tel: 44-171-9388500
● Living Silver: a display of 21 silversmiths commissioned by the Crafts Council to produce creative, affordable and functional domestic tableware. Pieces include a candleholder, a champagne flute and a parmesan grater. All the work is available for purchase; from Nov 27 to Apr 2

OPERA
London Coliseum Tel: 44-171-8360111
● Die Soldaten: by Zimmermann. Conducted by Elgar Howarth, performed by the English National Opera. Soloists include Lisa Saffer and Jan Opalach; 8pm; Nov 28
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Don Giovanni: by Mozart. Conducted by David Syrus, performed by the Royal Opera. Soloists include Christine Brewer, Solveig Kringelborn and Christiane Oelze; 7pm; Nov 27, 29

■ NEW YORK

EXHIBITION
MOMA – Museum of Modern Art, New York Tel: 1-212-708-9400
● Jasper Johns: A Retrospective: this retrospective exhibition devoted to the work of the American artist Jasper Johns spans four decades of artistic achievement, from his early paintings of flags and targets to the recent densely layered canvases that probe the whole of his career. Drawn from public and private collections throughout the world, the exhibition comprises some 225 paintings, works on paper, and sculptures, including recent work never before shown to the public; to Jan 21
Whitney Museum of American Art Tel: 1-212-570-3600
● Breuer's Whitney: an Anniversary Exhibition in the Lobby Gallery: presented on the occasion of the 30th anniversary, of the opening of the Museum's Marcel Breuer building, this exhibition explores the programme, design and reception of Breuer's Whitney; to Dec 8

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Ensemble Orchestral de Paris: with conductor Jean-Jacques Kantorow, violinist Julian Rachlin and pianist Jonathan Gilad perform works by Mozart en Mendelssohn; 8.30pm; Nov 27

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● La Photographie Contemporaine Dans les Collections Nationales: exhibition featuring photographs by contemporary artists such as Christian Boltanski, Alain Fleischer, Annette Messager, Jun Shiraoka, Helmut Newton, and others; from Nov 27 to Mar 31

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Gidon Kremer, Per Arne Glorvigen, Vadim Sakharov and Alois Posch: the violinist, bandoneon-player, pianist and double-bass player perform works by Plazolla; 8.45pm; Nov 27

■ VALENCIA

CONCERT
Palau de la Música i Congressos Tel: 34-6-3375020
● Sinfonia Helvética: with conductor Grzegorg Nowak and pianist Kristian Zimerman perform works by Rossini, Mendelssohn and Brahms; 8.15pm; Nov 27

■ WASHINGTON

EXHIBITION
Corcoran Gallery of Art Tel: 1-202-638-3211
● The Moscow Studio 1991-1995 – New Russian Printmaking: this exhibition presents a broad spectrum of ideas expressed through printmaking, by contemporary artists working today in the former Soviet Union; from Nov 27 to Dec 30

■ ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Tonhalle-Orchester: with conductor Gennady Rozhdestvensky and violinist Sasha Rozhdestvensky perform works by Britten, Glazunov and Shostakovich; 7.30pm; Nov 27

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands.
Tel: 31 20 664 6441. E-mail: artbase@pi.net

WORLD SERVICE

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(Central European Time)

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NBC/Super Channel:

07.00
FT Business Morning

10.00
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Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Martin Wolf

A dream of a Budget

If the chancellor wants to avoid the mistakes of his predecessors, he should announce a tighter fiscal position and an independent Bank of England

Every commentator is a Walter Mitty. My fantasy is being Kenneth Clarke on Budget day. What would I say? Something like this.

"This Budget is likely to be my last, quite probably the last by a Conservative chancellor for some years.

"In framing it, I have remembered that in each of the last three decades the economy has overheated. On each occasion, a Conservative chancellor was in charge. On each occasion, the British people have paid the price in inflation, instability and unemployment.

"It is my duty to prevent this from happening now and to help ensure it will not happen again. For this reason, I am taking the following decisions:

● First, measures aimed at bringing the power to manipulate the economy under control.

● Second, a further tightening of fiscal policy.

"Let me explain the background to these decisions.

"You expect me to boast about the world-beating performance of the British economy. I will disappoint you. True, we have introduced important reforms of the labour market, public ownership, pensions and control over public spending. The party opposite has been forced to accept almost all of these. Our continental European partners will, too.

"Yet the UK's performance has not been decisively superior to those of our neighbours: between 1986 and 1990, UK gross domestic product grew at the average rate of the European Union – 3.3 per cent a year. Between 1991 and 1995, it grew even more slowly than the EU average – 1.2 per cent as against 1.4 per cent.

"The recent growth must be set against the recession of the early 1990s. That was caused by the overheating of the late 1980s. This in turn, followed the embarrassingly vainglorious episode of the 'British miracle'.

"Those who refuse to learn from history are condemned to repeat it. Each time we promise ourselves to do better next time. Each time we fail.

"The story begins with excessive growth in money and credit, fuelled by tax cuts and soaring asset prices. This generates rapid growth in demand, which the short-term capacity of the economy fails to meet. The symptoms are unsustainably swift declines in unemployment, deterioration in the external balance and inflation.

"Expectations of higher interest rates and higher short-term real returns attract capital inflows, which drive up the exchange rate. This lowers inflation in the short term. When interest rates decline once again, so does the exchange rate, accommodating the higher prices appreciation had repressed.

"Rapid growth dramatically improves the fiscal position. In 1988 and 1989, the UK even had fiscal surpluses. Alas, these encouraged more tax cuts than proved sustainable. Tax cuts also increase the pressure on monetary policy. This reinforces the role of the exchange rate in lowering inflation, exacerbating the burden on industries subject to international competition.

"This is not ancient history. It is beginning to happen again now.

"Consider the recent picture: broad money growing faster than in any other member of the Group of Seven industrial countries; the largest monthly fall in unemployment since December 1994; house prices rising at an annual rate of over 7 per cent; and the volume of retail sales growing at 4 per cent a year. Meanwhile, the exchange rate is now back to DM2.54 – a 17 per cent appreciation from its trough in May 1995.

"My predecessors put too much faith in the continuation of the glad tidings that come in early phases of any rapid expansion. I intend to reduce the capacity of my successors to make the same mistake.

"The unified Budget, improved procedures for control over public spending, the inflation target, the Bank of England's inflation report and the publication of the minutes of my meetings with the Governor of the Bank represent significant changes for the better.

"We must go further. So I now announce my first big set of proposals, which is for inclusion of the following reforms in our election manifesto:

● Independence for the Bank of England to achieve a target for inflation laid down by parliament.

● Establishment of an independent commission to analyse our fiscal position, as suggested by Andrew Tyrie, erstwhile adviser to two of my predecessors.

"In neither case will ultimate responsibility be removed from democratically elected politicians. In both, the ability to exploit the gullibility of the electorate for short-term advantage will be curtailed.

"My second big decision is to push for a tighter fiscal position, this for two principal reasons. The first is to ease the burden placed on monetary policy and the exchange rate. The second is to create a demonstrably sustainable fiscal position, thereby improving long-term inflationary expectations, lowering long-term interest rates and enhancing the UK's capacity to stabilise the economy.

"The first of these aims is compelling. A chancellor who pours petrol on a blaze is a pyromaniac.

"On the second, it is vital to reduce the ratio of public debt to GDP after its doubling since the beginning of the decade. This means a public sector borrowing requirement of 2.5 per cent of GDP or, ideally, less over the cycle. But this year, despite five years of recovery and excellent tidings on the public sector borrowing requirement in October, the deficit will still be above that ratio. It could be above that level next year, too.

"The rate of return to sustainable deficits has been too slow. The debt ratio will fall significantly only if rapid growth continues for many years. I hope this proves to be the case. It would be foolish simply to assume it will.

"The principal burden of tightening fiscal policy will be placed on public spending, which will continue to be controlled as it has been in recent years. But I recognise that we may now be curbing essential areas of public spending excessively. For this reason, another manifesto commitment will be a fundamental review of every significant area of public spending.

"I gave serious consideration to raising taxes this year, but decided that the improved prospects for revenue and tight spending control should be enough for my purposes. But there should be no tax cuts until the debt ratio is well on its way down again. Thereafter, cuts should proceed in line with the sustainability of the fiscal position.

"One good reason for not cutting taxes is the ludicrously disproportionate attention paid to the basic rate of income tax. Since income tax generates only just over a quarter of government revenue, this is a brilliant public relations coup. But it is stifling intelligent discussion of the tax system. Again, a fundamental review of the tax system is to be initiated after the next election as a precursor to further cuts.

"This is a prudent Budget; a Budget to prolong the current expansion; a Budget to help forestall an unsustainable surge in demand.

"It is also a Budget that my honourable friends will condemn as suicide. I assure them that their efforts to destroy our party's credibility make any effort from me redundant. But I believe that good economics is good politics. We will see whether the British people are prepared to prove me right. If they are not, they will have to tolerate the economic instability they deserve."

Management · Richard Donkin

Executives on trial by benchmarking

LucasVarity has adopted a more sophisticated approach to select its senior team

Many companies formed by merger find themselves with a surplus of senior managers. LucasVarity, the motor components and aerospace group created by the £3.2bn ($5.4bn) June merger of Lucas Industries of the UK and Varity Corporation of the US, was no different.

Like a growing number of companies, LucasVarity decided to take advantage of more sophisticated techniques to reassess the whole executive team. About 160 senior managers have been screened for the top 100 positions in the new company in a four-stage process using self-assessment, a battery of tests and an innovative new approach to benchmark their performance against the best in the world.

"I think it is only fair to be thorough in a process such as this because, after all, you are playing with people's lives," says Victor Rice, the chief executive who believes the method he has used has been less painful than many and scrupulously objective.

Rice used four methods to choose his team at LucasVarity. First, all the senior executives were asked to assess themselves. Second, they were subjected to a performance appraisal by their immediate bosses. Then they were all given a series of psychometric tests.

And finally, they were assessed using a programme developed by Egon Zehnder, the headhunting company, to benchmark the performance of executives against those who are recognised as the best in their sectors worldwide. The programme uses headhunting skills and resources to compare executives as they would when assessing the field in a recruitment assignment.

"The more sophisticated company boss tends to see this as a good way of benchmarking the management team against the best people in similar businesses the world over," says John Grumbar, managing partner of Egon Zehnder.

He says the appraisals were developed in response to public service bodies in Latin America, Greece and Austria which were privatising services. These clients wanted the headhunters to gauge the effectiveness and quality of public sector staff moving into the private sector.

Since it was launched six years ago, the programme has been used on about 100 similar assignments covering 5,000 managers. Executives undergo intensive structured interviews with consultants who use the sessions to assess how well individuals display the qualities and abilities that are being sought. "What we are doing is measuring the human capital of the company," says Grumbar.

Executives are usually wary about the process, says Grumbar – particularly where they work for the target in a hostile takeover.

"The way it is presented to them is crucial," he says. "One of the key things for us is to set them at ease. We actually find that executives welcome the process when they see that the top management team is being assembled using an objective process run by a third party.

"They know we have no axe to grind so, in those circumstances, it's quite often the staff of the acquiring company who are most nervous."

The process, he says, not only weeds out people who are unsuited for the jobs they are doing; it also finds appropriate alternatives for their skills. Occasionally it will find that no one is of the calibre required for a certain position. In those cases the company must recruit from outside.

The method was also used by Wisconsin Central Transportation of the US after it bought four UK rail freight operators – Rail Express Systems, Mainline Freight, Loadhaul and Transrail Freight. These were combined into one company, English, Welsh, Scottish Railways, and Egon Zehnder appraisals used to choose the senior team from managing director down.

"In our case we had four people for every job," says Ed Burkhardt, president and chief executive of Wisconsin Central. "We needed to get a feel for their abilities, strengths and weaknesses so that we could make our decisions. These were people we did not know very well. The process involved a 360-degree look at every one of them and it was well received."

The result was that of 28 executives interviewed, four departed. Three American executives were brought in from the parent company and a finance director from outside.

"Without this approach we would have to make our own judgments without the benefit of all the information we were able to accumulate," says Burkhardt. "That would have been far more difficult to deal with."

One of the strongest advantages of the Egon Zehnder method, according to Rice, was that it provided an objective view of the capabilities of LucasVarity executives. "There were some where the analysis would assess the individual as inferior to what you would expect and there were other cases where it went the other way. There was the odd person who didn't like it or who froze during a psychometric test.

"But a big majority really believed it was genuinely impartial. At the end of the evaluations, there was no doubt that the whole process was full of integrity – and that's rare."

LETTERS TO THE EDITOR

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Message to Kohl: Emu only at right price

From Mr Chris Allsopp and Mr David Vines.

Sir, Suddenly things have really changed in the Emu debate.

It now looks very likely that Germany will not meet the Maastricht criteria. As a consequence the panel of "Wise Men" (who in Germany have real authority) have recommended to Mr Helmut Kohl, the chancellor, that there is no alternative to delay in the establishment of monetary union.

But Mr Kohl wishes to rush on and to brush objections aside. The chancellor appears to have an implicit deal with France which he still wishes to cash. That deal seems to be as follows. Germany can have the kind of Emu which the Bundesbank wants, in which there is a rigid "stability pact" which prevents countries within Emu running "excessive budget deficits".

In return, France can have the kind of Emu which it wants: one with a requirement that those countries not in the first wave of the monetary union must join a new "ERM of the periphery" in order to be allowed to join Emu later.

The new price for the deal, now that Germany probably will not meet the Maastricht entry conditions, is likely to be a really watertight stability pact – to satisfy the Bundesbank.

Such an Emu would create a zone of despair and instability in Europe.

The proposed pact really will prevent national fiscal authorities from dealing with recession. Normally in a recession the "automatic stabilisers" allow tax revenues to fall, supporting income and counteracting the downturn. It is no good pretending that "by the time Emu is working deficits will be under control and there will be room for such stabilisation". There will not. The stability pact will say: "Raise taxes as Europe goes into recession." And do not expect the European Central Bank to solve this problem – its priority will be price stability.

The ERM of the periphery will require second-wave Emu countries to stabilise their exchange rates against the euro for a trial period before they can join the monetary union. The French want this, to prevent "competitive devaluations" by those in the periphery who might well want to avoid joining the core Emu countries in recession.

If the French are successful in their objective, the overvalued currencies of the peripheral countries will be sitting ducks for speculative attack.

Is this the Europe of the future? It is fortunate that the run-up to Emu is happening at a time of recession; as a result the problems that Emu must face are already clear. They must be faced, now.

EU members (other than France and Germany) on which even a core-Emu will depend, should send a message to Mr Kohl. "You can have Emu; we are even in favour of it. But our price is this: no stability pact, and no ERM of the periphery."

Chris Allsopp,
New College,
David Vines,
Balliol College,
Oxford, UK

Airbus claims the lead

From Mr Robert Alizart.

Sir, In his report ("Air France orders 20 long-haul jets as profits soar", November 21), David Owen reports Air France as saying that the B777 has the capability of flying non-stop further than the Airbus A340. The A340 is the world's longest range airliner, bar none, capable of flying its full complement of passengers and baggage non-stop some 7,300 nautical miles.

The B777 is also credited by Air France with having more business seats than the A340. This is not true for equivalent comfort standards. Seats in the A340 business class are in a six-abreast configuration, the arrangement prevalent in the business class sections of almost all airlines, while the B777 offers the less popular seven-abreast seating.

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Daunting outlook for European readers

From Dr Frederic Methlow.

Sir, I was delighted to read Michael Prowse's praise of the US ("A deep debt of gratitude", November 25). How hard it must be for him to return to Europe, where cynicism reigns and customer orientation is so hard to find. Only the UK might be able to bring back to him the sort of libertarian atmosphere of inner-city decay. But we all know that the UK is light years ahead of us in terms of economic policy. For those of us who do not believe in this fact, one trip with a recently privatised rail service will suffice.

And how much Mr Prowse must suffer if he is able to enter the consensus-driven European mainland, where the debate about minimum working hours must represent the long-predicted nail in the coffin of European business. I appeal to the FT to keep Mr Prowse where he is (that is, Washington) and to fulfil his ultimate dream and pass over to him an assignment in the Midwest. We Europeans are simply too backward-looking to face the prospect of reading his contributions over the next couple of years. Please have mercy on a poor, narrow-minded reader of your newspaper.

Frederic Methlow,
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8032 Zurich, Switzerland

From Mr Tony Bird.

Sir, I agree with most of what Michael Prowse says about the niceness and decency of Americans in his article "A deep debt of gratitude".

But he goes too far when he says: "Little more than a century after its founding, the US had . . . all but eliminated the horrible class and status distinctions which still disfigure European and Asian society."

Isn't he forgetting the distinction between white and black?

Tony Bird,
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Labour relations climates more relevant

From Mr Peter McKenna.

Sir, The 18m unemployed in the EU must feel their plight is far removed from the arcane arguments in Brussels over graphs "using synthetic indices of regulation, constructed from approximate and subjective ratings of five categories of employment legislation" ("Brussels clears disputed report – minus graphs", November 9/10).

They may feel the simple, robust and alarmingly different unemployment rates of 11 per cent in the EU and 5.2 per cent in the US may be more relevant and wonder if the big differences in their labour relations climates could be a factor. They might like to hear from EU officialdom their explanation of this difference, what can be learned from it and what action they propose.

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FINANCIAL TIMES

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Channel tunnel safety

Are privatised infrastructure projects such as Eurotunnel less safe than ones run by the state?

On the face of it, the question is absurd: few ventures are more inherently risky than flying, yet privately-owned airlines are just as safe as state-owned ones. And there are enough examples of public-sector disasters – the Windscale reactor in the UK, Chernobyl in the Soviet Union, transfusions with Aids-contaminated blood in France – to tell us that ownership does not dictate safety.

Yet the Eurotunnel fire has re-opened the question. There is clearly a nagging public suspicion that managers of risky private-sector undertakings may compromise safety in the interests of profit.

The public is right to be concerned about conflicts of interest, but wrong to focus solely on the profit motive. All risky ventures face a permanent tension between the protection of society and the interests of the enterprise's workforce.

Managers of every type, in both public and private sectors, must constantly balance the interests of customers and the general public (which themselves may not be identical) against a number of offsetting forces. Among the admirable ones are professional pride and a sincere desire to offer service. More questionable forces include the preservation of colleagues' jobs and a bias towards administrative convenience.

Private-sector managers will also, of course, have the need to make profits at the forefront of their minds. Public-sector managers, in most countries, confront a similar financial pressure: the struggle for public funds.

Those ultimately responsible for safety – regulators in the case of a private-sector undertaking, politicians in a public-sector example – face a continuous barrage of plausible arguments. Operating managers, usually more experienced than the regulators, will stress that current safeguards are fine, and certainly could not realistically be made more stringent.

The outcome, each time, will probably be a compromise between the maximum protection the supervisors can devise and the most the company is prepared to accept. So it was with the design of Eurotunnel and its rolling stock.

The inquiries into the fire should help us judge whether this compromise was the best that could be struck. They will also emphasise that elaborately conceived safety systems are only as good as the way they are operated. Above all, however, they will remind us of the need for vigorous safety supervision of risky ventures, regardless of ownership.

Road outrage

Mr David Shaw, MP for Dover, has come up with a way for dealing with the French lorry drivers' strike which has blocked roads round 30 cities and marooned 1,000 British truckers in their cabs. He is minded to travel to France to "have a stand-up row with the French police on the spot".

He should do so. Such extra-territoriality will add new words to the language of diplomacy. Perhaps the gendarmes will agree to a reciprocal visit to tell Westminster MPs how to conduct their business.

The idea is no less exciting than that of Sir Teddy Taylor the incorrigible Eurosceptic MP. He called on Mr Neil Kinnock, the European commissioner for transport, to "do something". Exactly how he would like the commissioner to interfere in the affairs of a sovereign state is unclear. Let us hope any intervention will not form a precedent for Brussels bureaucrats giving orders to the Southend police.

Yet the recent cries of anger from British backbenchers do represent a general feeling that, this time, the French strikers have gone too far and that the authorities should clear the road-blocks. Although France has become accustomed to anarchic strikes and wild expressions of populist anger, direct action which impedes the free flow of foreign goods is of legitimate concern to other EU countries.

In a community of nation states, each government must decide how to keep public order, but order there must be. Action to block highways, destroy perishable freight in foreign trucks and smash cab windows, poses a direct threat to harmonious trade within the union.

Direct comparisons with the UK are perilous, if only because less than 10 per cent of French workers are unionised compared with 30 per cent in the UK. But this is a subject on which Britain can teach France a lesson, although not quite the one which Mr Shaw envisages.

In the 1970s, when wildcat strikes and unionised thuggery were widely thought to be pushing the UK towards anarchy, the government often seemed worse than impotent. It discouraged the police from restoring order, and intervened only to concede union demands.

After 1979, tougher laws and more vigorous policing helped to achieve what many had thought impossible. The number of days lost to strikes, which reached a peak of 29m in 1979, had fallen to a seventieth of that number by 1995.

If France now claims a different tradition, it should also recall the method of keeping the peace pioneered in Britain in a former age. It was called danegeld and it did not work.

Votes overruled

While there is plenty of encouraging news about the consolidation of democracy in central and eastern Europe, recent developments in at least two countries are a depressing reminder that this trend is not a universal one.

In Serbia, the opponents of President Slobodan Milosevic have seen a remarkable set of municipal election victories snatched from their hands by the cynical use of court judgments. A year after Mr Milosevic earned a partial rehabilitation, by helping make peace in Bosnia, some of the worst suspicions about his regime have been confirmed.

In Belarus, meanwhile, President Alexander Lukashenko has taken a large step towards the establishment of a similarly authoritarian form of rule by claiming a 70.5 per cent victory in a referendum on reinforcing his powers over other branches of government. The poll has been denounced by independent observers as deeply flawed by electoral irregularities and manipulation of the media.

However much support Mr Lukashenko really enjoys – and that is hard to assess – events in Belarus emphasise the fact that democracy is not simply majority rule. The quality of political life in the states emerging from communist rule must also be judged by the extent to which executive, legislative and judicial power are properly separated. In both Minsk and Belgrade, there is every reason to be pessimistic on this score.

All this is an embarrassment to the Clinton administration which has said that the spread of democracy will be one of the key goals of its second term. Mr Strobe Talbott, the deputy secretary of state, recently defended this policy on grounds that democracies respect treaties and are less likely to resort to terrorism or war.

In the case of Serbia, western governments will be tempted to turn a blind eye to the regime's undemocratic behaviour on the grounds that Belgrade's co-operation with the settlement in Bosnia is the most important thing.

It is vital to keep that peace process on track. But offering Mr Milosevic carte blanche at home would be a short-sighted policy, compounding the loss of moral authority that western governments suffered when they endorsed the results of Bosnia's recent election.

As Nato and the European Union consider the warmth of their relations with the ex-communist nations to their east, they should take account of the quality of democracy in each country. Not only for the reasons cited by Mr Talbott – but also because of the bitter resentment which the west could incur among hard-pressed opposition movements which feel that the older democracies are conniving with their oppressors.

The laurels must wait

Italy's centre-left coalition still faces difficult challenges despite the boost from the lira's return to the ERM, says **Robert Graham**

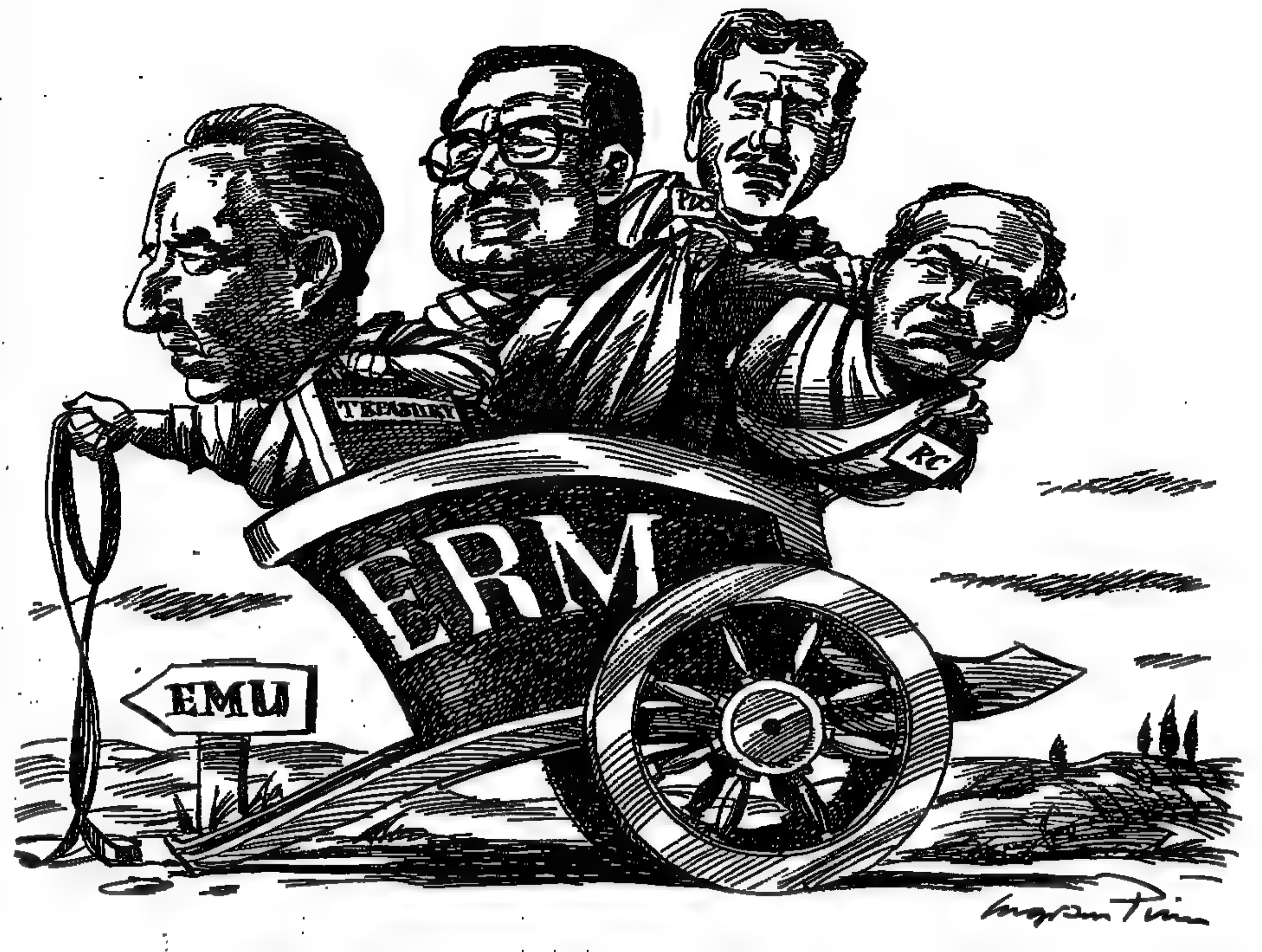
The return of the lira yesterday to the disciplines of the European Exchange Rate Mechanism marks a milestone in Italy's difficult but determined pursuit of international credibility.

The move does not eliminate the scepticism among Italy's main partners over the country's ability to take part in the first phase of a single European currency. But the six-month-old centre-left administration of Mr Romano Prodi was yesterday celebrating the vaulting of one major hurdle towards being accepted as a credible member of monetary union.

Italy had to be back inside the ERM before the end of the year to qualify for the single currency. The deal achieved on Sunday night in Brussels was close to what the Italian government had hoped to pull off, and was more advantageous than many of Italy's partners expected before the weekend negotiations began.

This outcome was due more than anything else to the tough negotiating stance taken by Mr Carlo Azeglio Ciampi, the treasury minister whose prestige as a former central bank governor gave force to his arguments.

Mr Ciampi held out until the last moment against fixing the lira's central band at anything stronger than L1,000 to the D-Mark. He agreed to accept L990 – 1 per cent less – only on condition that the EU ministers also stated their confidence in the rapid improvement of Italy's economic position since it was dramatically forced out of the ERM in 1992.



Yesterday Mr Prodi, leader of the Olive Tree coalition, appeared more than satisfied: "Our team fought a great battle and we have obtained a very good result."

In a country where every lobby is quick to cry foul, the muted criticism from the opposition and business underlined the government's significant political success with the lira. Yesterday, the main source of discontent was among exporters, concerned that margins would be squeezed at a time of flat domestic demand and pressure on labour costs.

At the European level, the main gain is not the technical arguments in fixing the new lira central rate but the way in which the decision taken on Sunday was demonstrably political. This will confirm the widely-held Italian belief that it will be much harder to exclude Italy from the single currency on political grounds.

This point is of great importance domestically. The government last week announced plans to introduce a "Euro-tax" to be progressively applied next year on a one-off basis starting at 1.5 per cent of incomes over L23m ($15,350) a year. The tax is largely in the form of an enforced loan: the government has pledged to repay up to 60 per cent of the tax, beginning in 1999.

The justification for the measure is that Italy must make the extra effort to bring the budget deficit down to the level required by the Maastricht treaty to qualify for monetary union – 3 per cent of gross domestic product. The rightwing opposition headed by Mr Silvio Berlusconi, the former premier and media magnate, has greeted the proposal with a barrage of criticism and attacked the tax as likely to provoke a recession next year.

The opposition also warns that the government risks looking ridiculous if, after forcing Italians to pay more unpopular taxes, the country is still excluded from monetary union. The re-entry of the lira to the ERM removes one potential reason for such exclusion and thus should make it easier to sell the 1997 budget, which will receive finally parliamentary approval in mid-December.

The other political gain relates to the populist Northern League and the growing demands for secession. Fear of the League was one of the reasons why the government decided in September to increase the scope of the 1997 budget to comply with the Maastricht criteria within the deadlines set for being in the first wave of members of the single currency.

Ministers believed that failure to be at the centre of economic and monetary union would feed the League's separatist ambitions and encourage the idea of the north being able to negotiate a separate deal with Brussels. At least for the moment, this fear has receded.

Not all is on the plus side. Sunday night's ERM agreement now focuses attention on two issues which will have a direct influence on Italy's ability to comply with the Maastricht convergence criteria and which are politically controversial. The first concerns long-stalled negotiations on a new wage contract for 1.6m engineering workers. The second involves a move to accelerate a reassessment of last year's limited pension reforms.

The engineering workers are the traditional vanguard of Italy's trade union movement and the outcome of their negotiations will have a much broader effect. The unions are seeking to recoup a sizeable part of real earnings eroded by inflation since 1994.

The 1993 pact with the government and employers that eliminated indexed wages provided for the unions to make claims that reduced the erosion of earning power. But the employers have refused to make more than a token offer, arguing that anything more will cut into their margins. The unions are unwilling to agree to this, since they believe it would permanently weaken their position in future wage negotiations.

The Bank of Italy in its October bulletin warned against an inflationary wage agreement. It was joined yesterday by Professor Franco Modigliani, the Italian Nobel Prize-winning economist, who in a newspaper interview described the engineering wage contract as "an enormous potential danger". "If this contract is not wound up in a responsible way, and on the low side, the lira risks an immediate new speculative attack," he said. "The unions' demands are completely out of line."

Inflation, Prof Modigliani says, is the number one enemy and cannot be considered conquered – even if it is now down to 2.5 per cent, the lowest for decades.

Doubts about the trend in inflation will also influence the timing of a fresh interest rate cut by the Bank of Italy. The central bank is likely to wait to assess whether any wage settlement is inflationary.

A rate cut would make it much easier to bring down the budget deficit, since Italy has the largest primary surplus – the deficit excluding debt repayments – in the EU. Inability to reduce interest rates further would enormously complicate the task of meeting the Maastricht criteria.

A successful conclusion of the dispute over the engineering workers contract will make it easier for the government to deal with the other challenge: the overhaul of the welfare state.

Mr Ciampi has been a leading advocate of a review of pensions and welfare payments early next year - a year before it is required under the terms of the 1995 pension reforms. With the need for more structural cuts in public spending, he believes it is imperative to reduce further the cost of the state pension system.

This will be possible only if the unions can be persuaded to agree to an earlier review – when they have the law on their side. Mr Sergio Cofferatti, their main leader, has made it clear his duty is to his members and not Italy's first post-war government of the left.

The move to cut welfare benefits places Mr Prodi in a contradictory position. His coalition does not command a majority in the lower house, and the government thus relies on the support of the hardline members of the old Communist party who now form Reconstructed Communism.

Mr Prodi has been reluctant to seek votes outside the centre-left coalition or challenge Reconstructed Communism and has thus fallen deeper into the embrace of Mr Fausto Bertinotti, the RC leader. It has been largely at Mr Bertinotti's urging that the 1997 budget has relied more on taxes (hitting the rich and middle class) than on structural spending cuts.

Mr Bertinotti's stranglehold over the government has been strongly attacked by Mr Massimo D'Alema, leader of the Party of the Democratic Left, the reformist majority of the former Communist party which is the dominant partner in the government. He has blamed the prime minister for poor leadership and for allowing the government to be pulled to the left when the electorate is in the centre.

Behind this skirmish is a subtle battle to test whether Mr Prodi should stay on as leader. Mr D'Alema has considered replacing him with a candidate capable of lasting at least another two years and dealing with the rightwing opposition. This would make it possible to tackle constitutional reform, a central part of the coalition's agenda.

And scarcely had the celebrations begun after Sunday night's news when a challenge emerged to Mr Prodi's position. It emerged that Rome magistrates had requested that the prime minister be sent for trial for alleged abuse of office in 1993 while he was chairman of Iri, the state holding company. A judge will now have to endorse the request.

Mr Prodi has been aware for almost two years of the investigation into alleged irregularities into the privatisation of SME, a foodstuffs group. The matter was raised by the rightwing parties – with little success – during the April general election campaign.

The entire Iri board at the time has also been implicated, but even if the charges are without foundation, it is a deep embarrassment to the government and Mr Prodi. It is also a further reminder that in Italy, political stability cannot yet be taken for granted.

· OBSERVER ·

Co-operate or else

■ The genteel atmosphere inside the Organisation for Economic Co-operation and Development, the industrialised world's most influential think-tank, will be ruffled today as disgruntled staff at its Paris headquarters protest over its attempt at "downsizing". Up to 45 administrative staff will get the chop from January, as new brooms Donald Johnston, the secretary-general, and Jean-Jacques Noreau, executive director, try to meet US-led budget cuts.

Agreement from OECD member countries is needed to start culling the sacrosanct economic research programmes and the highly-paid economics staff, but officials warn that, even there, cuts are "very much on the cards".

It's offering redundancy packages; they include cash and psychological counselling. Now *there's* a growth business.

More madness

■ The European parliament's inquiry into mad cow disease has trundled on for 10 weeks, though for all the public interest it's received it might have been 10 years. A few sparks might conceivably be struck today when MEPs cross-examine two former commissioners of agriculture on how they managed, or failed to manage, the threat posed by mad cow disease.

The two are Rene Steichen, a Luxembourger who held the job during 1993 and 1994, and Ray MacSharry, the straight-talking Irishman who ran EU agriculture policy between 1989-92.

MacSharry will certainly prove a tough nut to crack. Credited with cajoling recalcitrant EU farm ministers into reforming the highly protectionist Common Agricultural Policy in 1992, he was also chief EU negotiator on agriculture during the trade talks under the General Agreement on Tariffs and Trade. On that occasion he secured a much better deal for EU farmers than anybody thought possible. MEPs bent on unearthing conspiracies won't get much joy from *him*.

Spectacle case

■ Sartorial choices speak volumes, as we all know. Thus we are tempted to regard Jürgen Schrempp's decision to change his style of spectacles as something more than mere window dressing.

The Daimler-Benz chairman normally sports a pair of somewhat awkward-looking rectangular lenses, going under the brand name "Vidi Vici", no doubt derived from Julius Caesar's famous phrase "I came, I saw, I conquered".

Now it seems that Schrempp, who when he took charge last year marketed himself as a thrusting, no-nonsense type of guy, is less intent on conquering. For on the cover of the current issue of Wirtschafts Woche, the German business weekly, Schrempp is wearing a pair of nicely *rounded* spectacles, conveying a much changed persona, a sort of Mr Nicer Guy.

The alteration is probably just a matter of taste, and nothing whatsoever to do with a recent climbdown over the issues of sick pay or plans to sideline Helmut Werner, head of Daimler's car division Mercedes.

City climbdown

■ Pasqual Maragall's departure at the weekend as mayor of Barcelona means he will have more time to indulge his passion of philosophising about urban life.

Maragall it was who in 1992 organised the successful Barcelona Olympics, setting a benchmark that Atlanta's authorities dismally failed to live up to this year. In the process he revamped his home town into one of Europe's classiest cities. One of his notions is that cities provide a "centre of gravity" between individual egoism and general welfare.

He's fond of asserting that Europe's true roots lie "not in the nations, not in the regions, but in the cities." He believes that Europe will become "terrified by its diversity", but that those who live in Manchester, Hamburg, Barcelona and other such cities will always be able to understand each other. Too bad some of his fellow citizens didn't quite seem to comprehend him.

Flightless birds

■ Some 250 American-grown emus will now probably not end up roasted on the plates of indigent families in the Caribbean at Christmas. They were to be donated by US farmers to the First Baptist Church in Florida, thence to be shipped out to the Caribbean, ending up as no doubt protein-rich turkey substitutes. But a Florida-based vegetarian activist group, "Food Not Bombs", has objected, and the church has given in. The vegetarians have been told that if they can come up with something better to help the poor, it will be considered. Back to vegetable hot-pot . . .

Financial Times

100 years ago

Introduction Of Motor Cars
"The introduction of motor cars, opening up as it does an industry of enormous importance, affords the opportunity for the safe and profitable employment of capital scarcely second to that embraced in the great Railway System." Thus speaks the London Commercial Investment Corporation in introducing to a waiting world the Pioneer Motor Car Syndicate, which is to make straight the path of the United Kingdom Motor Car and General Agency Company. The last named venture – if we may call it so – will establish depots for storing motor cars, and will sell, let out on hire, stable and clean the new-fangled steeds, thus creating a "considerable monopoly" and forming the nucleus of a "colossal trade."

50 years ago

China Takes Action
The difficulties that have long confronted the Chinese Government in the endeavour to put its house in order are well recognised in the City. Any information, therefore, which indicates progress is welcomed. Brief cabled advices seem to indicate that the Chinese authorities are at long last taking the steps necessary to restore some semblance of balance between exports and imports.

FINANCIAL TIMES
Tuesday November 26 1996

Leaders divided on importance of decision

Apec supports planned free trade deal on IT

By Edward Luce and Guy de Jonquières in Manila

Pacific Rim leaders yesterday bowed to pressure from US president Bill Clinton by backing a planned free trade deal for information technology products, but almost immediately undermined their endorsement by openly disagreeing over it.

The leaders' statement on IT was the climax of a summit of the 18-member Asia Pacific Economic Co-operation forum, which produced few noteworthy advances towards the grouping's goal of freeing all trade and investment in the region by early next century.

The leaders called for an IT agreement in the World Trade Organisation which "would substantially eliminate tariffs by the year 2000, recognising the need for flexibility as negotiations in Geneva proceed".

Mr Clinton called the statement "a big deal", and a senior US official said support from the Apec leaders – whose economies generate more than half of world trade – obliged WTO members to conclude a far-reaching accord at their ministerial meeting in Singapore next month.

However, Mr Goh Chok Tong, prime minister of Singapore, which will host the WTO meeting, said the forum's IT statement was ambiguous. "It can be interpreted by [Apec] members as anything they want it to be," he said.

Dr Mahathir Mohamad, Malaysia's prime minister, said the 2000 deadline had no binding force.

Mr Qian Qichen, foreign minister of China, which is not a WTO member, said there was a case for cutting IT tariffs, but negotiating on the timetable or the products to be covered was not a task for Apec.

Even US officials seemed confused about what the leaders' statement meant. Some claimed it implied abolition of tariffs on all IT products. But others said it allowed for a WTO deal that excluded some products and involved varying liberalisation timetables.

Although many leaders hailed the summit as a step towards closer Pacific Rim relations, some expressed disappointment at its results. Dr Koo Chen-Fu, a senior Taiwanese official who represented the island at the summit, regretted that more had not been done to turn Apec's free trade vision into reality.

Mr Qian said the leaders needed to focus more on technology transfer and economic co-operation. He criticised Apec's industrialised members for seeking free trade in IT while still protecting their textiles markets.

He also expected negotiations on China's bid to join the WTO to resume in earnest in the first half of next year. This is the closest Beijing has come in public to confirming that it plans to submit an improved negotiating offer.

Mr Clinton told Chinese president Jiang Zemin on Sunday that the US would be "flexible and pragmatic" in the negotiations, provided Beijing pledged to open its market further and embrace WTO rules.

UK urges France to seek end to truck blockade

By David Buchan in Paris

French truck drivers tightened their blockade of main roads and petrol depots yesterday, leading to localised fuel rationing for the first time in their week-long protest.

The dispute is causing increasing disruption of international freight. About 200 UK truck drivers were stranded at Calais, five crossing points on the Franco-German border near Strasbourg were blocked and a main road from Lille to Belgium cut.

Sir George Young, the British transport minister, urged his French counterpart to bring the dispute to an end as soon as possible.

Britain's Road Haulage Association said more than 700 British vehicles were estimated to have been caught up in the blockade.

Mr Alain Juppé, the French prime minister, said his government was "doing everything" to facilitate the complex negotiations between representatives of the country's 35,000 road haulage companies and their employees. After 14 hours of fruitless negotiations that ended early yesterday, the government-appointed mediator called another session last night.

Mr Jacques Barrot, the labour minister, called on employers to "make an effort", suggesting the government might provide aid to help them let older drivers retire early.

The truckers are demanding a reduction in their retirement age from the national norm of 60 to 55, as well as higher wages and pay for time spent waiting between loads.

At the start of last night's session, the drivers' employers rejected as "unacceptable" what they said were union demands for "a 23-30 per cent rise in salaries and payment for all hours, including rest hours".

Directing their irritation more at the haulage companies last night, government officials said employers seemed less ready for a deal than the drivers. Officials even suggested that larger companies saw an interest in continuing the conflict to shake-out weaker competitors.

The dispute is the most serious since the national rail strike a year ago. Yesterday five rail unions instructed their members to show support for the drivers "in whatever way they judge useful".

Despite the prospect of the protest widening, the government has made clear it has no intention at this stage of using police or the army to clear the blockades which, technically, are illegal.

Editorial Comment, Page 17

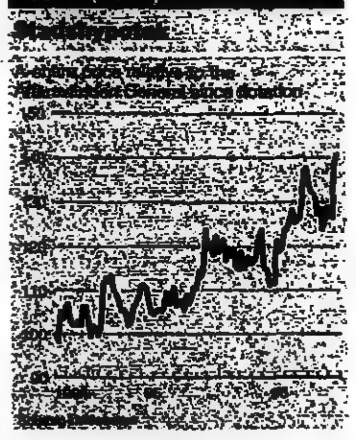
THE LEX COLUMN

Striking attitudes

The latest round of strikes in France will inevitably spark worries that the country is in for a rerun of last year's wave of discontent. Yet, at present at least, the comparison looks misleading. Last year, the government's plan to trim the entitlements of public-sector workers acted as a focus for broad-based protest. This year, although the government has inevitably become drawn into negotiations and is hardly immune from flak, the current dispute is ultimately between the *routiers* and their employers. The unions may well seek to broaden the issue into generalised opposition to job losses, but the government is taking so few tough decisions at present that it is difficult to see much of a peg for union leaders to hang a protest on.

Politically, this softly-softly approach is perfectly logical. France's government is already deeply unpopular, thanks mainly to high – and rising – unemployment. But this does not in itself appear enough to get protesters on to the streets. If experience so far is anything to go by, only attacks on the privileges of the employed can do this. So the government is understandably trying to perform a balancing act: it knows it can probably contain opposition to an aggressively-priced currency provided it does not itself risk too much in the way of restructuring. There is only one problem with this neat strategy: its implications for French competitiveness and unemployment look dire.

FTSE Eurotrack 200: 1902.4 (+16.7)



Stadshypotek/Skandia

The Swedish government has good reason to feel aggrieved with the country's largest mortgage bank, Stadshypotek. The government owns 34 per cent and wants to sell to the highest bidder – most likely a bank. But this approach would result in major restructuring for Stadshypotek, and many redundant managers. So top executives have instead agreed a merger with the insurance group Skandia which secures the bulk of their jobs, given the absence of overlap between the two businesses.

There is no doubt something needed to be done with Stadshypotek. It faces a competitive onslaught from Sweden's mainstream banks and, as a one-product company, is fighting a losing battle. Merging with another bank would be the obvious method of getting maximum value for Stadshypotek shareholders, and there are interested bidders out there.

By contrast, Skandia's primary interest appears to be gaining access to Stadshypotek's surplus capital to shore up its own stretched balance sheet. Given the weak industrial logic, it is unlikely to be able to pay top krona.

That said, Skandia has offered a decent premium to Stadshypotek's book value. Having opposed this merger, the government needs to show that it can secure a better offer for all shareholders. Simply selling its own stake to the highest bidder while leaving other investors high and dry would be an unacceptable alternative. And it would send out a powerful warning against future Swedish privatisations.

KLM

At first sight, the suggestion that KLM might buy back all or part of the government's remaining 38 per cent stake in the airline looks an attractive wheeze. By avoiding a public offering, the government could get away without having to sell its shares at a discount. And by the end of the year KLM could have as much as Fl 3bn ($1.7bn) in cash sloshing around its balance sheet – comfortably enough to snap up as much of the government's stake as it wants.

The snag is that KLM also has rather a lot of debt – around Fl5bn of it after netting off the cash hoard, or 30 per cent more than the company's market capitalisation. And even without a buyback, some analysts reckon interest cover this year is likely to be less than one. So while gearing up further by buying back government-held shares would deliver a cosmetic boost to earnings per share, the benefit would be entirely offset by the reduced quality of the earnings stream, and the resulting lower rating for the shares. With no apparent tax benefit, investors would have gained nothing.

Moreover, a buyback from the government would have to be subject to hawk-like scrutiny from KLM's other shareholders; there is an obvious risk that the government could be favoured by an artificially high buyback price. The only fair solution would be to offer the buyback to all shareholders at the same price. Yet that way, KLM would have to gear up further still. It would be far better to avoid the buyback idea altogether.

UK/Emu

While Britain's members of parliament were working themselves into a tizzy over the regulations for a single European currency, financial markets emitted one big yawn. In theory, a single currency could exert discipline on how the UK frames its fiscal policy; but Britain would first have to join the euro. With both main political parties hopelessly divided on the issue, it is hardly surprising that financial markets are not taking the possibility very seriously at present.

Mr Kenneth Clarke, the chancellor, rightly points out that Britain still has an interest in the details of the so-called stability pact, which is supposed to stop budget deficits inside the single currency area ballooning. After all, the UK might at some point choose to join the euro. Still, from a financial rather than a political perspective, the precise form of the pact is of secondary importance.

True, a rigid approach that severely penalised countries with excessive deficits might provide somewhat more discipline than a loose pact with limited fines. But it is worth remembering that the main discipline to be virtuous will come from financial markets rather than bureaucrats – provided, that is, Brussels does not give the impression it will bail out the prodigal. And this discipline will apply to Britain, whatever it decides about the euro. Mr Clarke has an excellent opportunity to show he has learnt this lesson when he presents his Budget this afternoon.

Additional Lex comment on Christian Salvesen, Page 25

Russians control telecoms

Continued from Page 1

holding company for the government's stakes in 85 regional telecoms operators, was first intended for sale as a separate entity, and Stet of Italy last December came close to taking a 25 per cent stake.

But the climate for substantial western investment and competition in strategic Russian industries has worsened since the election as President Yeltsin's backers such as Most, Alfa Bank, Stolichny Bank and Menatep have increased their political influence.

Scandinavian merger doubt

Continued from Page 1

against analysts' estimates of net worth of around SKr21bn.

Skandia said Statshypotek's surplus capital, estimated at SKr4bn-SKr5bn, would help fund its expansion in savings-linked activities. It said the merged group would reap cost and synergy benefits of SKr2bn by 2000.

Skandia made operating profits of SKr541m in 1995, against a SKr187m loss the year before. Statshypotek's profits were SKr3.1bn, versus SKr1.7bn.

Marketing of World Cup hit by resignations

By Jimmy Burns

Three senior executives have resigned in protest from ISL, one of the world's leading sports marketing companies.

Their departure threatens to plunge the handling of World Cup football contracts into fresh turmoil.

Mr Peter Sprogis, Mr Steve Dickson, and Mr Tom Hipkins quit over the corporate restructuring plan recently announced to staff by Mr Jean Marie Weber, the Lucerne-based company group chairman.

The executives were key figures in the company's successful SFr2.8bn ($2.2bn) joint bid, together with the German media group Kirch, for television rights outside the US to the 2002 and 2006 World Cups. Their resignations come as Fifa, world football's governing body and ISL's leading client, is preparing to invite tenders for key marketing contracts covering the two World Cups.

Mr Weber has created a holding company called ISMM Investments and a group management board, with himself as president and including three other ISL senior executives.

The three who resigned were excluded from the new management structure, although they had been offered continuing senior roles in ISL's TV, football, and legal departments.

ISL has several existing contracts including the marketing rights to the 1998 World Cup in France, and the track and field World Championship in Athens next year.

Mr Christopher Malms, ISMM's chairman, said last night: "Our company has experienced a very strong growth pattern over the last year that requires an adjustment in the management structure to integrate all our businesses."

Sports industry executives suggested last night that the resignations could undermine the confidence in which the company is held by sports organisations.

The three were unavailable for comment yesterday. But an internal senior staff memorandum said the move follows "major philosophical differences" over the management and future direction of the company.

ISL recently added to its existing marketing operations in Europe, Asia, and the US, by opening offices in Amsterdam and Brussels.

Fifa said last night it was aware of the resignations but would not comment further.

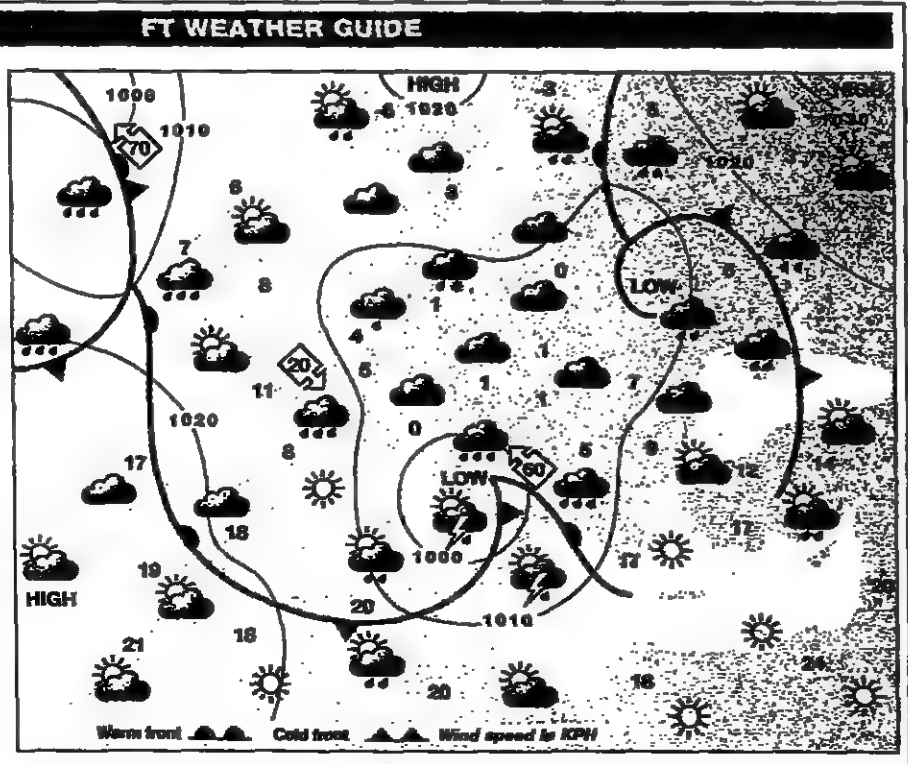
FT WEATHER GUIDE

Europe today

High pressure will promote dry conditions with a few sunny spells over most of the UK. Cloud will thicken in Ireland and rain will start in the afternoon. The Benelux and France will be cloudy. Northern Germany will have patchy rain and sleet. Spain and Portugal will be mainly dry but the north will be drizzly. An active low will cause numerous thunder showers in Italy. The seas surrounding Italy will be very windy. A low over Belarus will cause cloud and showers in Ukraine and parts of Russia with temperatures a few degrees above freezing. The south-eastern Mediterranean will stay mainly dry and mild.

Five-day forecast

The UK will stay unsettled. The Mediterranean and Balkans will remain windy and wet. The rain will gradually spread towards Turkey. Southern Scandinavia will turn frosty. Central Europe will be cloudy with local rain or sleet and snow above 500m.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius												
		Beijing	sun 5	Caracas	fair 29	Faro	fair 20	Madrid	cloudy 16	Rangoon	shower 31
		Belfast	cloudy 6	Cardiff	cloudy 7	Frankfurt	drzzl 6	Majorca	fair 18	Reykjavik	windy 4
Abu Dhabi	sun 27	Belgrade	rain 5	Casablanca	sun 18	Geneva	rain 8	Malta	shower 19	Rio	fair 25
Accra	shower 30	Berlin	snow 1	Chicago	cloudy 1	Gibraltar	fair 19	Manchester	cloudy 5	Rome	rain 15
Algiers	shower 20	Bermuda	fair 25	Cologne	drzzl 6	Glasgow	cloudy 3	Manila	shower 31	S. Frsco	fair 17
Amsterdam	cloudy 7	Bogota	thund 21	Dakar	sun 33	Hamburg	snow 2	Melbourne	fair 23	Seoul	rain 11
Athens	fair 16	Bombay	sun 34	Dallas	fair 12	Helsinki	cloudy -1	Mexico City	fair 25	Singapore	thund 31
Atlanta	cloudy 18	Brussels	drzzl 7	Delhi	sun 25	Hong Kong	fair 26	Miami	shower 27	Stockholm	cloudy 2
B. Aires	sun 27	Budapest	drzzl 2	Dubai	sun 26	Honolulu	fair 28	Milan	cloudy 8	Strasbourg	drzzl 8
B.ham	fair 5	C.hagen	drzzl 4	Dublin	fair 7	Istanbul	fair 13	Montreal	snow 1	Sydney	sun 23
Bangkok	shower 34	Cairo	sun 24	Dubrovnik	rain 12	Jakarta	shower 31	Moscow	cloudy 4	Tangier	fair 18
Barcelona	fair 18	Cape Town	sun 24	Edinburgh	fog 3	Jersey	fair 8	Munich	drzzl 7	Tel Aviv	fair 24
						Karachi	sun 29	Nairobi	shower 25	Tokyo	fair 14
						Kuwait	fair 25	Naples	shower 15	Toronto	cloudy 1
						L. Angeles	sun 25	Nassau	fair 29	Vancouver	rain 7
						Las Palmas	fair 23	New York	rain 12	Venice	rain 8
						Lima	cloudy 22	Nice	fair 14	Vienna	snow 3
						Lisbon	shower 18	Nicosia	fair 23	Warsaw	cloudy 0
						London	fair 8	Oslo	snow 0	Washington	rain 17
						Luxbourg	cloudy 5	Paris	drzzl 8	Wellington	fair 17
						Lyon	rain 9	Perth	fair 23	Winnipeg	sun -10
						Madeira	shower 21	Prague	snow 2	Zurich	shower 8

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday November 26 1996

IN BRIEF

Japanese loans banks rebound

Japan's long-term credit and trust banks have followed the top city banks in rebounding from record losses in the second half of last year to profitability in the first half of 1996 – thanks to reduced write-offs of bad loans. But their asset quality continues to be even worse than that of the main banks. Page 22

US groups end Slovak telecoms dispute
Two US telecommunications groups, US West and Bell Atlantic, have reached agreement with Slovenské Telekomunikácie, Slovakia's state-owned telephone company, on ownership of a new digital mobile telephone network, ending a dispute that has lasted nearly four years. Page 21

Cepa shareholders back US bid
Southern Company, the US electricity group, moved closer to control of Consolidated Electric Power Asia after shareholders in the Hong Kong power company voted to approve its US$2.7bn takeover offer. Page 22

KeyCorp plans national network
KeyCorp, the Cleveland-based US commercial bank, said it was taking a $100m charge for this quarter and laying off 10 per cent of its workforce as part of a restructuring designed to create a national branch network. Page 23

FDA clears Prozac as bulimia treatment
Prozac, the antidepressant developed by Eli Lilly, the US drugs group, has become the first medicine to be approved by the country's Food and Drug Administration for the treatment of bulimia nervosa, the eating disorder. Page 24

UK health group receives approach
Ashbourne, the UK nursing home group, said it had received an approach from an unnamed company which could lead to a bid. Shares in Ashbourne rose 22p to 161p, valuing it at £88.5m ($148m). Analysts said it was most likely that Sun Healthcare, the US group which already owns 29.2 per cent of Ashbourne, had made the approach. Page 25

Companies in this issue

Market Statistics
http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Linde	919	+	9
Schering	122.50	+	2.70
Veba	88.20	+	1.87
Viag	581	+	8.5
Falls			
Hochtief	59	−	2.10
Holzmann	380	−	11
NEW YORK ($)			
Rises			
K N Energy	41	+	2¾
Williams Cos	57⅝	+	4⅞
Falls			
Dominion Res	21⅞	−	1⅝
KCS Energy	33¼	−	5⅞
Transocean	63¾	−	4
Zilog	22	−	3¼
LONDON (Pence)			
Rises			
Ashbourne	161	+	22
Hercules Prp	83	+	38
Prism Rail	445	+	25
Rolls-Royce	257½	+	10½
Falls			
Applied Holo	89	−	17½
Widney	42½	−	9
TORONTO (C$)			
Rises			
Bovar	40.05	+	2.50
MNT	29.00	+	2.25
Spectrum Sig	8.60	+	1.30
Falls			
Cassaco Peopls	21.25	−	1.00
Golden Star	21.15	−	1.15
Reitman's	14.85	−	1.40

PARIS (FFr)			
Rises			
BIC	778	+	11
CSF	1265	+	45
Ch. Dior	743	+	12
Danone	749	+	12
Schneider	295	+	7
Falls			
Crd Foncier	84.70	−	4.65
TOKYO (Yen)			
Rises			
Alps Elec	1380	+	60
Canon	2510	+	90
Koito Manf	857	+	29
Nissan Motor	845	+	31
Falls			
Japan Radio	1360	−	50
Yoshino Japan	640	−	52
HONG KONG (HK$)			
Rises			
Amoy Props	11.60	+	0.50
Cheung Kong	69.00	+	0.75
Hysan Dev	[illegible]	+	1.15
Wharf Hldgs	[illegible]	+	0.90
Falls			
Harbour Centre	11.10	−	0.40
Hutchsn. Whmp.	69.25	−	1.25
BANGKOK (Baht)			
Rises			
Book Club	46.25	+	3.50
Thai Sto	77.50	+	8.50
Tipco	40.25	+	3.25
Falls			
Kang Heat	41.00	−	4.50
United Comm	208.00	−	12.00
Univentures	21.00	−	2.25

New York & Toronto prices at 12.30

US energy groups agree $7.7bn stock swap

Sector's biggest deal yet hinges on regulatory approval

By Richard Tomkins in New York

The rapidly consolidating US energy industry was yesterday poised to see its biggest combination yet with the announcement that Duke Power and PanEnergy had agreed to merge in a stock swap worth $7.7bn.

Duke Power is one of the largest US electricity utilities and PanEnergy is one of the largest natural gas companies. Together, they will form what they described as "the pre-eminent provider of energy and energy services in North America".

The transaction dwarfs other recent takeovers in the US energy industry, the larger of which have typically valued the target company at $2bn-$3bn. It also reflects a growing trend for electricity companies to seek mergers with gas companies in order to become "full-service" energy suppliers.

Until recently most mergers in the US energy industry were between electricity utilities seeking to gain strength in the face of a gradual deregulation of the US electricity market.

However, some electricity companies have grown concerned that electricity supply will become a low-margin business when deregulation is complete, and are looking for ways to diversify into a wider range of energy products and services.

Last month Enova, a Californian electricity utility, agreed to merge with Pacific Enterprises, a Californian gas company, in a stock swap worth $2.8bn; in August, Houston Industries, a Texas electricity utility, agreed to merge with NorAm Energy, a Texas gas company, in a stock swap worth $2.4bn.

Duke Power, based in Charlotte, North Carolina, has about 1.8m customers in North and South Carolina. PanEnergy, based in Houston, Texas, has a pipeline network that carries about 15 per cent of the natural gas consumed in the US. It also markets gas directly to end-users through a joint venture with Mobil.

Under the merger agreement, PanEnergy shareholders will receive 1.0444 Duke Power shares for each of their own shares, resulting in the issue of about $7.7bn worth of Duke Power stock. The new company, to be based in Charlotte, will be called Duke Energy.

Duke Power shares were $1⅛ down at $46⅞ in early trading; PanEnergy shares were $1⅞ up at $44.

Mr William Grigg, Duke Power's chairman and chief executive, said yesterday that customer choice would drive the US energy services marketplace: "In our dramatically changing industry, we need to define ourselves by our customers' needs, not by our traditional product offerings.

"Companies that are in a position to help their customers find total energy solutions at competitive prices, we believe, will be rewarded with high earnings growth."

The merger would add about $225m to Duke Power's pre-tax profits by 2000, he said.

The merger, subject to regulatory approval, is expected to be completed within a year.

KLM rises on prospect of reduced state holding

By Gordon Cramb in Amsterdam

Shares in KLM, the Dutch national airline, jumped 8 per cent yesterday after the government and the carrier said they were exploring the possibilities of a reduction in the state's 38.2 per cent stake, worth more than Fl 1.5bn ($890m).

A joint statement said the two sides were "conducting exploratory talks on a possible partial sale of KLM shares by the state", adding only that discussions "are still at such an early stage that it would at this moment be premature to predict whether these talks will eventually lead to a sale".

The shares closed Fl 3.40 higher at Fl 45 on expectations that an agreement would allow the airline to buy back some of its stock. This would improve per-share performance measurements at a time when the company is struggling to revive its financial outlook.

A deal could also aid KLM's image in the eyes of potential industry partners which, in countries like the US, may be less keen on an alliance with a carrier seen as a semi-state enterprise.

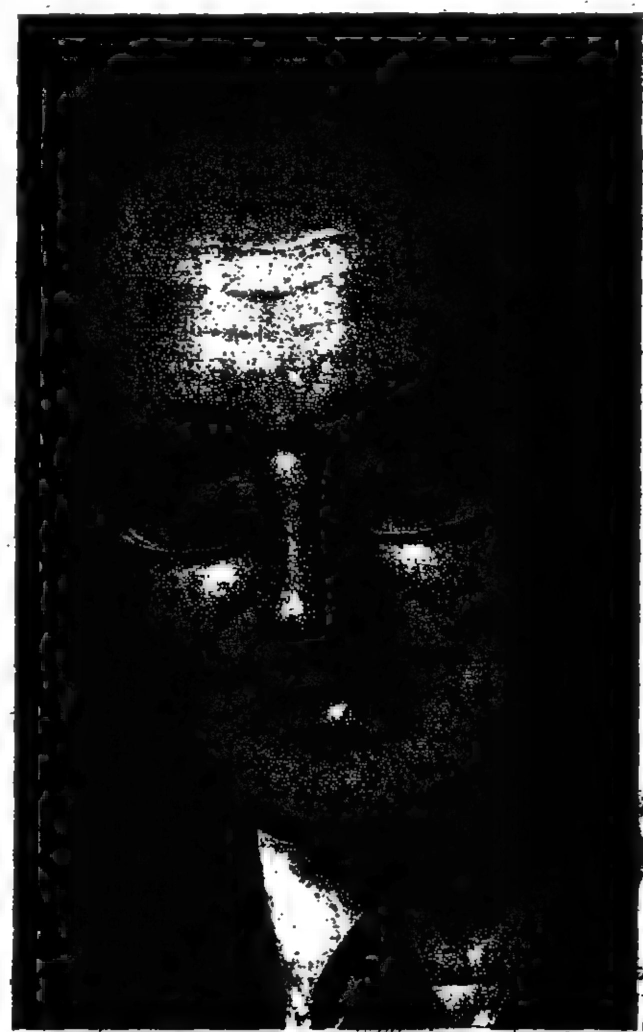
KLM has had a troubled seven-year tie-up with Northwest Airlines, and is said to be anxious to join the British Airways-American Airlines alliance across the Atlantic.

In spite of yesterday's rally, the shares are still 30 per cent below their 52-week high of Fl 64.30 reached in the spring, when it announced record net profits for the year to March of Fl 547m, or Fl 5.86 a share. Since then it has been hampered by higher fuel costs and a swelling salaries bill.

For the state, which holds nearly 30 per cent of the ordinary shares, an early sale might not maximise its proceeds. But the Dutch government is anxious to bring down debt ahead of European monetary union, and faces big outlays on infrastructure projects – not least the expansion of Schiphol airport, KLM's hub.

Three weeks ago Mr Pieter Bouw, president, announced a 14.6 per cent decline to Fl 258m in net earnings for the important second quarter and outlined a restructuring programme. This is intended to restore the return of equity to the 14 per cent achieved last year. He said this would require Fl 1bn in cost cuts over three years.

Industry analysts were sceptical of KLM's ability to meet such targets. The airline has entered difficult negotiations with its trade unions on Mr Bouw's proposed spin-off of ancillary services and drive to cut wage costs.



KLM's president Pieter Bouw: recently announced plans for a restructuring programme to achieve cost cuts

But one airline analyst said in Amsterdam yesterday that a share buy-back "would certainly help" to improve financial ratios. "It can afford to buy back the whole lot," he added.

One formula discussed yesterday involves the creation of investment funds to be listed on the Amsterdam stock exchange. Each would hold a 5 per cent stake in KLM.

This would help preserve its Dutch character and access to bilaterally negotiated landing rights – though it may be regarded elsewhere as a type of protection against takeover.

KLM has objected to the capping of its voting rights at Northwest, in which it owns a 25 per cent economic interest.

Lex, Page 18

French close to deal with Russia on Tsarist bonds

By Andrew Jack in Paris

Trading in Tsarist Russian bonds was suspended in Paris yesterday amid growing speculation that a compensation agreement is close for French investors who have received no payment since the Bolshevik Revolution in 1917.

The stock market authorities said trades had been halted in the interest of investors after a series of rumours on the prospect of reimbursement of the dishonoured bonds.

The action came as French government officials suggested a deal was likely to be ratified this evening during a meeting between Mr Alain Juppé, the prime minister, and Mr Victor Chernomyrdin, his Russian counterpart, who arrived in Paris last night.

Mr Chernomyrdin, at a two-day Franco-Russian economic summit, told the Interfax agency before leaving Moscow that the country would pay its Tsarist debts.

Mr Alexander Livshits, the Russian finance minister, at the end of last month said reimbursement as a "symbolic gesture" was close.

The summit, which opens today, is expected to discuss the Tsarist gold still held in France and compensation for pre-revolutionary bonds.

In an indication of the move towards a settlement, representatives of the leading associations of Russian bond-holders in France yesterday met Mr Jean Arthuis, French economics minister, and Mr Hervé de Charette, the foreign minister.

"It seems that we are finally on the right track," Mr François Bayle, chairman of GNDPTR, the national group for the defence of Russian bond-holders, said on French radio.

Afper, the French association of Russian bondholders, went so far as taking out advertisements to warn international investors when the city of St Petersburg and then Russia announced plans for new bond issues for foreign investors.

Russia has already reached a compensation agreement with British investors, but in spite of a pledge in 1992 signed between former French president François Mitterrand and the Russian president Boris Yeltsin, no money has yet been handed over to French investors.

The French were among the largest foreign investors in Tsarist Russia, buying an estimated 30m bonds in a series of issues between 1880 and 1913.

Some 4m bonds held by more than 400,000 individuals with a nominal value of about FFr15bn (21.7bn) are estimated to still be in circulation.

It is unlikely any deal would offer anything like the full compensation represented by the bonds, estimated by Afper in current terms at FFr1,000bn.

More than 90 types of bond are still traded on the Paris bourse, although annual volumes traded have been extremely low for many years and the price so low that some were bought to be sold at a profit in flea markets.

Christian Salvesen demerger of Aggreko hire business

By Ross Tieman

Christian Salvesen yesterday unveiled long-awaited plans to demerge its Aggreko hire business and distribute £150m ($253m) to shareholders through special dividends.

But the proposals were attacked by Sir Gerald Elliot, a former chief executive and chairman who brought the one-time Scottish conglomerate to the stock market, as a "financial sleight of hand" that would not improve performance of the businesses.

The break-up plans, promised in the wake of a bid approach from rival distribution group Hays in June, were unveiled yesterday alongside pre-tax profits for the half to September 30 up 14.7 per cent to £51.4m.

The company said the measures were designed to deliver value to shareholders and "create the right environment for grasping the opportunities for each of our businesses".

Under the proposals, Salvesen will pay an enhanced special dividend of £50m, equal to 17 pence per share, on February 3. Provided shareholders consent, it will also buy back around 10 per cent of its own shares, through the device of a foreign income dividend, at a cost of £100m.

The dividends will lift group gearing from 20.3 per cent to 103 per cent, said Mr Chris Masters, chief executive.

Provided shareholders approve, Salvesen will then demerge its Aggreko business, which hires out portable electricity generating, refrigeration and air-conditioning equipment, in the second half of 1997. That will leave Salvesen, once best known for its shipping interests, as a haulage and distribution business, with a food processing arm.

Mr Masters said the demerger, which will cost £10m-£15m, had been contemplated before the Hays bid, but "it probably would not have happened so soon".

But Sir Gerald, a former chief executive and chairman of Salvesen, said the company was giving way to pressure from institutional shareholders. "I question whether the board is fit to carry on," he said.

Shares in Salvesen eased 1½p to 322½p.

Results and Lex, Page 25

US tests alternative newsprint

By Bernard Simon in Toronto

Six US newspapers have started publishing on newsprint made up partly of material from farmers' fields rather than forests.

The experiment in California and Oregon will give heart to publishing companies buffeted by volatile paper prices and an industry facing pressure from environmentalists who want to conserve forests. Pulp prices have swung between $390 and almost $1,000 a tonne over the last couple of years.

The new paper is a mixture of California rice straw, Oregon rye grass and fescue grass from Alberta.

Each of the newspapers – which include the Los Angeles Times – printed a few pages on the newsprint, but said the experiment was a success. Between 10 per cent and 20 per cent of the paper is made up of the "agri-pulp".

The agri-pulp technology was developed by Arbokem, a small company based in Vulcan, Alberta. Mr Al Wong, Arbokem's president, said his company was "not going to run the wood guys out of business" but stressed it was creating a third fibre supply. Wood chips and recycled paper are the two raw materials used in papermaking.

Initial reaction was enthusiastic. "It performed well enough that we're interested in running another trial," said Mr Eric Jensen, operations manager at the Oregon City mill where the paper was produced by Smurfit, one of North America's biggest newsprint makers.

An official at the Sacramento Bee, which put 20 tonnes of the paper on its presses, said: "It was no problem for us. It appeared just like normal newsprint."

Smurfit said: "What we're looking at are agricultural products that are grown on an annual basis, where the stubble is left in the field after the seed head has been harvested."

There are some drawbacks to agri-pulp: the cost is almost double that of wood pulp and rice straw has shorter fibres, raising questions about its suitability for recycling. However, recycled paper was much more expensive than virgin wood pulp until costs were brought down.

Absa ahead of expectations with R595m

By Mark Ashurst in Johannesburg

Amalgamated Banks of South Africa, the country's largest banking group, has announced interim results which move it closer to the benchmarks set by its peers.

Net income increased 16 per cent from R515m to R595m ($129m) for the six months to September 30.

Earnings per share were 38 per cent higher at 101 cents compared with 73 cents. The interim dividend was up 26 per cent, from 21.5 cents to 27 cents a share.

Absa has struggled to integrate its four constituent banks, but analysts said the results were above expectations. The shares gained 10 cents to close at R23.20 after a day of interrupted trading caused by technical problems at the Johannesburg Stock Exchange.

Mr Danie Cronje, chief executive, said the improvement reflected efforts to cut operating expenses, which took 68.3 per cent of operating income, down from 70.5 per cent previously. South Africa's four commercial banking groups have set a target of 60 per cent for 2000; the peer group average for the period was 65.8 per cent.

Operating expenses were swollen by a R120m write-down of computer systems pending the introduction of Absa II, an integrated operating system for use by all the group's banks. "About 80 per cent of the information technology risk [of merging Absa's constituent banks] is now behind us," Mr Cronje said.

The charge for bad debts increased 59 per cent from 0.64 per cent of total advances to 0.84 per cent.

Conservative provisioning made it unlikely that the charge would increase in the second half, despite increased pressure on borrowers following last week's one percentage point rise in the prime rate.

Net interest income was 23 per cent higher at R2.6bn, helped by an increase in the net interest margin from 4.36 to 4.63 per cent.

Non-interest income contributed 38.9 per cent of total operating income, from 35.2 per cent previously, in line with Absa's goal of developing a more balanced portfolio. The peer group average is 42 per cent.

Increases in mortgage lending and instalment credit business, failed to keep pace with the growth in the sector, causing the group's overall market share to fall from 28.7 per cent to 27.6 per cent.

The increase in corporate lending trailed the other banks, although income from trading activities was buoyed by the weaker rand.

Skandia pre-empts banking sector shake-out

The planned mega-merger between Skandia, Sweden's largest insurer, and Statshypotek, the country's biggest mortgage bank, marks the opening gambit of the much-heralded restructuring of Sweden's financial sector.

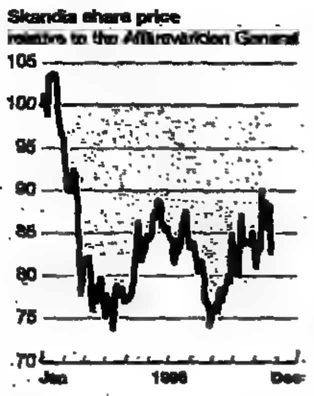
Financial deregulation, sluggish domestic growth and looming European monetary union have united to form a strong impetus for consolidation in the industry as leading groups compete to protect and enhance their market shares.

Much of the speculation has centred on Statshypotek, with its dominant 30 per cent share of the mortgage lending market. The government, Statshypotek's largest shareholder, plans to sell its 34 per cent stake next year, and Sweden's four leading banks have been linked with all or part of its operations.

But in the event, Skandia – in many eyes an unlikely suitor – beat the banks to the punch. It was considered unlikely because it is an insurance company and it was the banks which were expected to initiate the rationalisation. Nevertheless, the tie-up between Skandia and Statshypotek would create the largest financial services group in the Nordic region, with total assets of SKr500bn ($75.6bn) and a market capitalisation of around SKr45bn.

Creating the Nordic region's biggest financial group

Skandia share price relative to the Affärsvärlden General

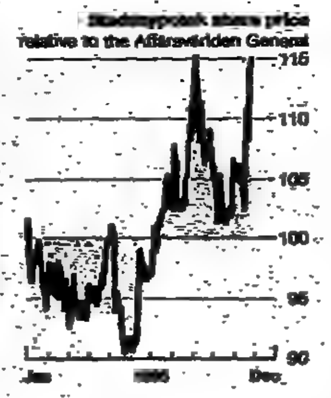


Merged group	1995	1996*
Operating profits (SKr m)	5,445	5,058
Pre-tax profits (SKr m)	4,515	4,479
Total assets (SKr m)	483,200	506,500
Shareholders equity (SKr m)	27,200	29,590
Adjusted eps (SKr)	17.8	16.5
Eps (SKr)	15.0	12.5
Customers (m)	2.0	
Employees	18,000 (50% abroad)	

*To 30 September

Source: Datastream

Statshypotek share price relative to the Affärsvärlden General



Executives of both companies were at pains in Stockholm yesterday to highlight the merger's merits, saying it would enhance shareholder value next year and yield synergy and cost benefits totalling SKr2bn in 1997-99. Yet the deal appeared to raise as many questions as it answered.

The first question is whether the Swedish government will support it. In an extraordinary show of disgruntlement, Mr Erik Asbrink, finance minister, denounced Statshypotek for, in effect, going behind the government's back. He suggested the Skandia bid had damaged its own plans for auctioning its stake – valued at SKr7bn – and said he had no confidence in Statshypotek's board.

Where this leaves the deal is hard to say. Skandia would not be drawn on how it would act were it to be rebuffed by the government, although it said its aim was 90 per cent acceptance. The picture became even more blurred after Statshypotek said it would consider any higher competing offer.

Analysts were divided over the logic of the deal. Some emphasised the value of Statshypotek's SKr4bn-SKr5bn surplus capital for Skandia as it seeks to expand its unit-linked operations in Scandinavia and abroad. These have grown from 30 per cent of operating profits last year to 42 per cent so far this year.

The unit-linked operations, grouped with life assurance to form Skandia's AFS unit, have been the motor of its growth in recent years. By contrast, Skandia's core Nordic operations in non-life and reinsurance premiums have been under pressure amid heavy claims and tougher competition.

But other analysts said a costly investment by Skandia in a declining market outside its main growth area made little sense. "If the AFS market is growing, then why not just raise capital to fund that growth rather than going through this elaborate procedure to buy a bank with falling market share and falling margins?" asked Mr Peter Thorne, banking analyst at Paribas Capital Markets in London.

There was also concern that Statshypotek's real estate portfolio might prove a drain on Skandia. The two intend to dispose of the merged unit, holding property valued at SKr12.3bn, by spinning it off to shareholders or through a sale.

The combined group says it will save SKr1.2m by the end of 1999 through merging its administration and office networks, and by pooling its information technology.

Greg McIvor

Pripps Ringnes reveals hitch in Coca-Cola talks

Nordic drinks group Pripps Ringnes said yesterday that negotiations with Coca-Cola of the US over the winding-up of a production and distribution alliance in Sweden and Norway had hit difficulties, but talks were continuing, Reuter reports from Stockholm.

"We are still in negotiations. It might be difficult to reach the terms we came to in June," Pripps Ringnes said.

Last year Coca-Cola cancelled a 43-year-old licensing deal with Pripps Ringnes, a joint venture by the Swedish vehicle maker Volvo and Norwegian conglomerate Orkla.

The reason for the falling-out was not known but some observers suggested Coca-Cola was unhappy with its Swedish sales.

In June this year the two companies produced a letter of intent concerning the winding-up of their co-operation in Norway and Sweden. They decided to proceed with distribution in Sweden and Norway uninterrupted until February 1997.

Pripps Ringnes was to continue to produce Coca-Cola in these markets until the end of 1998.

The parties subsequently agreed to extend co-operation on sales and distribution in Norway until May 1, 1997. "It now appears clear that the parties will not reach agreement on finalising the negotiations on the basis of the letter of intent," Pripps Ringnes said.

"However, negotiations on adequate agreements concerning the winding up of cooperation in Norway and Sweden are continuing."

Coca-Cola has been in talks with Denmark's Carlsberg over future production and marketing in Sweden and Norway. Carlsberg has such an agreement with Coca-Cola in Denmark.

Pripps Ringnes said that if it was impossible to reach agreement over winding-up arrangements, co-operation between the parties would be based on the agreements that existed before June's letter of intent was entered into.

This meant that in Sweden, the contract would end on April 1 1997 and from that date Coca-Cola would take responsibility for its own production and distribution.

"Pripps has previously stated that the company disputes Coca-Cola's legal right to cancel the agreement in Sweden, and Pripps will as a consequence of a cancellation bring a claim for compensation against Coca-Cola," the company said.

Carlsberg ahead, page 21

INTERNATIONAL NEWS DIGEST

Thomson-CSF set to axe 5,000 jobs

Thomson-CSF, the defence arm of France's state-controlled Thomson electronics group, expects to trim its domestic staff to 32,000 full-time equivalents by the end of next year – a reduction of 5,000, or 13.5 per cent, from end-1995 levels. The company said the cuts reflected market conditions. France-based staff at the end of this year would total some 34,700. There would be no outright redundancies. *David Owen, Paris*

Telefónica eyes Latin America

Telefónica, the Spanish telecoms group, plans to create a new operator in Latin America to offer data transmission and value-added services to channel international traffic to its area operators, according to the Spanish financial newspaper Gaceta de los Negocios. The new operator would also allow the entry of a US partner to ensure and ease the interconnection with the US, the report said. Telefónica's international arm, Tisa, announced more than a year ago that it was planning to set up a pan-American network of global services sustained initially by operators Tasa of Argentina, CTC of Chile and Telefónica del Peru. The project would be extended in a second phase to the entire area, the report said. *Reuter, Madrid*

ActivCard heads for Easdaq

The race to list on Easdaq, Europe's new stock exchange for high-growth technology stocks, accelerated yesterday as ActivCard, a French developer of smart cards that make identity checks on users of personal computers, announced it was planning to raise up to $30m on the new market. ActivCard, which is issuing solely new shares in a combination of public offering and private placement, hopes to start dealings in early December.

The company, which is expected to turn profitable in the third quarter of 1997, will use the new capital to fund the next two quarters of operating deficit, to increase production, and to expand its research and development programme. Dr Solomon's Group of the UK, which combats computer viruses, is scheduled to start trading its shares on the established North American market Nasdaq today, and to become the first Easdaq-traded company tomorrow morning. *Katharine Campbell*

Valeo upbeat on dividends

Valeo, the French automotive supplier, expects to make a more generous dividend payout for the 1996 financial year and thereafter. In an interview with the French La Tribune newspaper, Mr Noel Goutard, chairman, said that until now the company had been restricted in its dividend payments by the need to pay off debts. Mr Goutard also said Valeo would consider a cash call if it was seeking to make an important investment. *AFX News, Paris*

Winterthur sees 20% advance

Mr Peter Spaelti, chairman of Swiss-based Winterthur Insurance Group, said the company's full-year net profit could rise nearly 20 per cent. In a interview with the Finanz und Wirtschaft newspaper, Mr Spaelti said net profit had grown an average of 19.8 per cent from 1993 to 1995 "and that we expect this [type of profit growth] to happen in 1996". *AFX News, Zurich*

Israel Discount Bank ahead

Israel Discount Bank, Israel's third-largest bank, yesterday announced an 11 per cent rise in net income for the first nine months of the year but made larger provisions for bad debts, especially in the building sector. The annualised return on shareholders' equity rose 0.4 per cent to 7.7 per cent over the same period last year.

Net income rose from $61m last time to $67.6m. But operating income before debt provisions fall from $208m to $201m. Provision for bad debts grew 48.9 per cent, from $62m – or 12.2 per cent of income from financing operations – to $92m – equivalent to 17 per cent of income from financing operations. *Judy Dempsey, Jerusalem*

Israel Chemicals sharply up

Israel Chemicals, the fertiliser and chemicals group, reported a sharp rise in profits for the first nine months of the year fuelled by exports and despite the high value of the shekel against the dollar, Mr Igal Dimant, ICL president, said. The company recovered from a loss of $15.4m over the same period last year to a net profit of $56.8m this year following a restructuring of the group and further expansion. Sales rose from $1.03bn to $1.2bn. Investments were ahead from $342m to $468m.

Exports account for the majority of ICL's sales, but Mr Dimant said the company still faced an overvalued shekel at a time when export-driven Israeli businesses which produce in the country are saddled with high interest rates, as well as an inflation rate of about 11 per cent which raises salary costs. ICL, through the Dead Sea Works, its subsidiary, last year formed a joint venture with Volkswagen, the German automotive company, to establish a magnesium reclamation plant. Mr Dimant said the facility should come on stream during the first quarter of next year after an initial investment of $350m. *Judy Dempsey*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

US groups reach deal in Slovak GSM dispute

By Vincent Boland in Prague

Two US telecommunications groups have reached agreement with Slovakia's state-owned telephone company on ownership of a new digital mobile telephone network, ending a dispute that has its origins in the break-up of Czechoslovakia nearly four years ago.

US West said yesterday that it and Bell Atlantic had each agreed to take a 20 per cent stake in EuroTel Bratislava, recently awarded a licence to operate the global standard for mobile telephony (GSM) system, one of two the government granted this year. Slovenské Telekomunikácie (Slovak Telecom), the state operator, will hold 60 per cent.

The dispute arose after the government said that Slovak shareholders must own 60 per cent of any consortium granted a GSM licence.

US West and Bell Atlantic own 49 per cent of another joint venture with Slovak Telecom operating an analogue mobile system. They believed they were entitled under that contract, dating from 1991 and covering operations throughout former Czechoslovakia, to the GSM licence under the same terms.

The current Slovak government, however, insisted on setting its own terms, including new ownership rules, when it unveiled plans in January to grant two GSM licences. This was consistent with the government's policy of favouring domestic investors when awarding contracts.

EuroTel was awarded the GSM licence in September and given 90 days to meet the ownership rules. At one point the telecoms ministry warned the consortium would lose the licence if it failed to agree with the terms. A settlement was reached after several weeks of negotiations between the two companies and Slovak Telecom.

US West said yesterday EuroTel would now "fulfil all requirements of the GSM licence" and promised to offer services in the three main Slovak cities by March. It has selected Ericsson, the Swedish telecoms group, to supply equipment.

The dispute at EuroTel has given Slovtel, which won the second GSM licence, a head-start in launching its new service throughout Slovakia. France Télécom owns 35 per cent of that joint venture. Its partners are Slovakia's state-owned electricity and gas utilities, three energy distribution companies and a privately-owned local investor.

Each GSM licence cost $8m, and both networks will require substantial investment. Each partner in EuroTel is likely to contribute to the cost of the investment according to its stake in the joint venture.

Carlsberg above expectations

By Hilary Barnes in Copenhagen

Carlsberg Brewery Group increased pre-tax profits 10.5 per cent from DKr1.42bn to DKr1.57bn ($272m) in the year ending September 30.

Mr Poul Svanholm, the outgoing chief executive who will be succeeded by Mr Flemming Lindelov next month, said the group was "not displeased" with the result, which was slightly above expectations. However, the most-traded B shares closed DKr7 lower at DKr375 in Copenhagen yesterday.

Carlsberg is poised to acquire a 20 per cent stake in the UK brewery group to be created from the merger of Bass and Carlsberg-Tetley. Completion of the merger, announced on August 26, is being held up while an opinion is awaited from the UK competition authorities.

The Danish group is also negotiating to expand overseas for the first time in the soft drinks business. It is in talks with Coca-Cola to extend its co-operation in Denmark – covering production and distribution – to Sweden and Norway. This follows the US drinks group's decision to end co-operation with the Pripps brewery group in Sweden.

Mr Walther Paulsen, Carlsberg co-managing director, said the talks had not been completed, but "a positive outcome" was expected.

Pre-tax profits were helped by rising returns from the group's financial assets, with net financial income increasing DKr10m to DKr318m.

Tax, however, rose 29 per cent from DKr343m to DKr444m, holding back the increase in group net profits, which rose 4.6 per cent, from DKr1.07bn to DKr1.12bn.

Earnings per share increased from DKr15.69 to DKr16.63. The dividend will remain unchanged at DKr3.40 a share.

Carlsberg's group operating profits increased DKr140m to DKr1.25bn. This was despite a DKr470m rise in sales and marketing costs to DKr4.30bn as the advertising spend was increased to support the Carlsberg and Tuborg brand names in core markets.

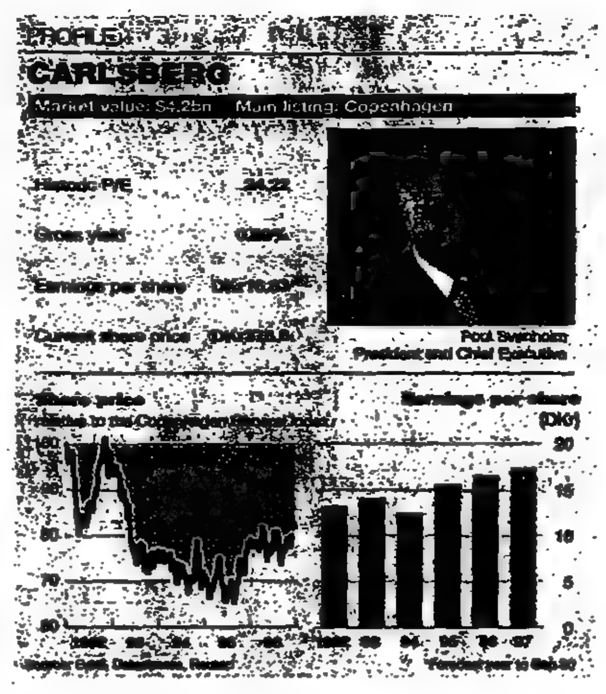
The group planned a further intensification of sales and marketing efforts, especially in China and other countries undergoing rapid development.

Mr Svanholm attributed the growth in operating profits, despite the sharp rise in sales and marketing costs, to improving productivity.

Sales increased 5.3 per cent, from DKr17.02bn to DKr17.96bn. Beer sales, of which 84 per cent were outside Denmark, rose 2.2 per cent to 32.3m hectolitres.

Carlsberg, which has increased worldwide beer sales 50 per cent over the past five years, said it expected continued steady growth, despite intense competition in an industry marked by growing concentration.

The group has a strong balance sheet, with equity capital at the end of last year of DKr8.91bn and assets of DKr20.46bn.



OBITUARY: Ludvík Kalma

Czech who smoothed path for Skoda's move west

Mr Ludvík Kalma, chairman of the Skoda Automobilová carmaker, who has died following a road accident, was the most prominent Czech presence at a company that in five years has gone from communist-era sloth to survive and – increasingly – prosper in the cut-throat international automotive business.

Mr Kalma's deliberate manner contrasted sharply with the more aggressive style brought to the dowdy but venerable company by its senior German executives, after the Czech government sold Skoda to Volkswagen. This was one of the most significant east-west deals signed in the immediate aftermath of the democratic revolutions of 1989.

A veteran of the Czech motor industry, Mr Kalma joined Skoda in April 1991 after heading Motor Jikov, an automotive components plant in southern Bohemia, near the town of Ceske Budejovice where he was born in October 1941, and which he joined in 1960 as an engineer.

He took over at Skoda as the sale to Volkswagen was being finalised, and became the Czech company's public face.

As a huge investment programme got under way he helped smooth early tensions between Czech and German executives, pulling the company through a difficult transition without undue upheaval.

Today Skoda is the Czech Republic's largest exporter and expects to break even or post a profit this year, for the first time since the arrival of Volkswagen, which now owns 70 per cent of the company.

Ironically, the car Mr Kalma was driving when it was in collision with a truck near the southern town of Tabor on Sunday night was Skoda's latest model, the Octavia, which he helped launch this autumn and for which the company has high hopes.

Skoda has spent heavily on building a new plant at Mlada Boleslav in the past two years to house a new assembly line for the Octavia, which is based on Volkswagen's Audi and Golf models.

The Octavia was recently unveiled to much fanfare, with some Skoda dealers in Prague reworking their showrooms to display the model to best advantage.

It is already common on Czech roads, its sleeker lines in marked contrast to the boxy Forman and Favorit models Skoda once used to make.

Skoda hopes the Octavia will be a big export-earner, and some economists predict the company will be responsible for up to 10 per cent of total Czech exports in two years.

Mr Kalma was chairman of the Czech automotive industry association and a vice-president of the Union of Czech Industry. He is survived by his wife and three children.

Police reportedly charged the driver of the truck with causing the accident.

No successor at Skoda has yet been named.

Vincent Boland

EUROPEAN NEWS DIGEST

SAI officials quit after court case

Mr Salvatore Ligresti, chairman of Societa Assicuratrice Industriale, the Italian insurance group, has resigned, said Mr Luciano Roasio, director-general. Mr Roasio also announced the resignation of Mr Fausto Rapisarda, managing director. SAI presented Mr Ligresti and Mr Rapisarda's resignations to Isvap, the insurance industry control body, which had asked the two officials to resign after the appeals court's sentence in a case concerning bribes paid to gain insurance contracts from Ente Nazionale Idrocarburi. *AFX News, Milan*

Crédit Lyonnais head upbeat

Crédit Lyonnais, the French bank, hopes for a break-even result in 1996 after the inclusion in this year's accounts of provisions covering all restructuring plans until 1998.

Mr Jean Peyrelevade, chairman, said in a radio interview: "Credit Lyonnais is doing much better." Crédit Lyonnais' international corporate banking division had a net return on equity of 15 to 20 per cent, a level comparable to that achieved by the best UK and US banks, he said. However, the profitability of its domestic and European retail banking division was close to zero. Mr Peyrelevade said the bank was "already rescued", but added that the next round of talks with the EU on the privatisation of the bank would determine "once and for all Crédit Lyonnais' future". *AFX News, Paris*

Aerospatiale bullish

Aerospatiale, the French aircraft manufacturer, was likely to achieve full-year net profit of twice the FFr273m ($53.6m) profit made in the six months to June, Mr François Auque, finance director, said in an interview in the German newspaper Handelsblatt. The company expected profit of about FFr2bn for the next two years, he added. Mr Auque said the forecasts take account of cuts in defence budgets, but have not integrated all the positive effects of Airbus Industrie's strong order book. *AFX News, Frankfurt*

French retailer to lift exports

Pinault-Printemps-Redoute, the French retailer, planned to increase its foreign sales to 40 per cent of its turnover by 2000, Mr Serge Weinberg, chairman, said in an interview with French daily Le Figaro: "Last year, the Pinault-Printemps-Redoute group made 28 per cent of its sales outside France, which is too little." He also said the company did not plan any further significant divestments. "We will continue the rationalisation of marginal activities, but there is no major sale planned," Mr Weinberg said. *AFX News, Paris*

CS Holding appointment

CS Holding, the Swiss banking group, has filled the last gap in its new top management team with the appointment of Mr Walter Knabenhans as chief risk officer. Mr Knabenhans was chief operating officer of Credit Suisse Financial Products. Management at CS Holding, which is changing its name to Credit Suisse Group, has been in flux since the group announced a restructuring in July. *William Hall, Zurich*

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CONTRACTS & TENDERS

PANAMA

PUBLIC BID FOR THE CONCESSION OF THE ATLAPA CONVENTION CENTER

Public Act of pre-qualification of companies and/or consortia for their participation in the Public Bid for the granting of the Concession of the Atlapa Convention Center and an area of 5 hectares + 7,136.19 m² located in the Corregimiento of San Francisco, Province of Panama, Republic of Panama for the development and commercial operation of the Tourist Project object of the concession.

An invitation is hereby extended to the firms or consortia of firms interested in participating in the Act of Pre-qualification to present information that would support their technical, administrative and financial capabilities for the development, administration and commercial operation of the Atlapa Convention Center and an area of 5 hectares + 7,136.19m² located in the Corregimiento of San Francisco, Province of Panama, Republic of Panama based on Law 16 of July 14, 1992, Law 56 of December 27, 1995, Executive Decree N°18 of January 25, 1996, and other additional and complementary regulations.

Only those firms and/or consortia that have been pre-qualified can present proposals for this act of Public Bidding.

The required information to be presented by the firm (s) and/or the consortia must cover the following basic components:

a. Pre-qualification Application
b. All the documents, conditions and legal, technical and financial requirements as contained in the Pre-qualification Document.

The interested firms and/or consortia may pick up the Pre-qualification Document on or after Tuesday, November 12, 1996 at the offices of the Panamanian Institute of Tourism, 1st floor, ATLAPA Convention Center, Corregimiento of San Francisco, Panama City, Telephone: (507) 226-4614, Fax: (507) 226-3483 or request it by mail addressed to Mr. Pedro Campagnani, General Manager, P.O. Box 4421, Panama 5, Panama.

The Pre-qualification instructions may be acquired by interested parties, after effecting a one thousand Balboas (B/.1,000.00) payment in cash or in Certified Check to the *Tesoro Nacional*. This payment is non reimbursable, and it constitutes a sole payment to cover the cost of applying for the Pre-qualifications.

The Pre-qualification application and all the legal, financial and technical documentation required must be consigned at the Public Act of presentation of applications that will take place on January 8 at 2:00 p.m. at the Chocoe Room of the ATLAPA Convention Center.

The Panamanian Institute of Tourism will not assume any cost which interested parties may have incurred in the presentation of the information and reserves the right to void, cancel postpone or declare forfeited the Act of Pre-qualification.

Issued in Panama City on October 31, 1996.

COMPANIES AND FINANCE: ASIA / PACIFIC

Japanese loans banks return to black

By William Dawkins in Tokyo

Japan's long-term credit and trust banks have followed the top city banks in returning to profit in the first half of 1996 after record losses in the second half of last year.

Like the city banks, they returned to the black as a result of writing off fewer bad property-related loans than in the second half of last year. But their asset quality continues to be even worse than that of the main banks.

The three long-term credit banks' bad debts rose 49 per cent on the first half of last year, to Y3,017bn ($27.13bn) – 7 per cent of total lending. The seven trust banks' bad loans more than doubled to Y3,566bn, or 12 per cent of outstanding loans. Trust banks' bad debt figures were inflated by an accounting change, but nonetheless confirm their asset weakness.

The long-term credit banks, traditional providers of large loans to Japanese industry, were back in profit after a year's losses. But their core business profits on average fell 21.1 per cent on the first half of last year.

A decline in the bond market wiped out the unusually high bond trading profits they made because of falling interest rates in the first half of last year. As a result, other operating income – which chiefly includes bond trading – fell 85 per cent.

Outstanding loans fell 4.3 per cent, partly a reflection of weak demand from corporate borrowers, but also a consequence of the long-term credit banks' new strategy of selling loans to regional banks.

In this way, Long Term Credit Bank of Japan reduced its loans assets 5 per cent over the period, a big step in the bank's policy of shrinking its asset base to improve capital adequacy. LTCB ended the first half as the best-capitalised of the long-term lenders, with a capital-to-risk assets ratio of just over 9 per cent.

The trust banks reported apparently sparkling profits growth, with core business profits up 190 per cent. This came, however, almost entirely from one-off factors, and the outlook for the current half is poor.

They are late to benefit from last year's falling interest rates, because the trust banks get three-quarters of their funding from two to five-year instruments.

In addition, all the trust banks made substantial transfers from hidden reserves to operating profits, helped by a legal change by the finance ministry in the way in which they may treat these reserves. This has helped them increase their capital adequacy ratios, which now range from between 9.7 per cent at Sumitomo Trust to 12 per cent at Nippon Trust.

Big changes at the halfway stage

Yen Changes year on year	Operating Profit	% change	Recurring Profit	% change	Net Profits	% change
Long-term credit banks						
Industrial Bank of Japan	107.9	-17.2	64.7	160.5	64.8	478.7
Long Term Credit Bank of Japan	75.5	-25.3	12.7	-27.0	11.0	0.3
Nippon Credit Bank	53.6	-44.2	6.2	-88.5	8.1	21.9
Total	237.0	-21.1	83.6	35.7	83.4	190.6
Trust banks						
Mitsui T & B	28.5	-33.2	24.0	124.5	25.9	366.3
Mitsubishi Trust and Banking	258.0	247.4	139.1	919.4	136.0	2,114.8
Sumitomo T & B	255.2	186.3	88.0	711.4	88.9	1,236.8
Yasuda T & B	79.5	123.5	4.0	-26.8	4.1	14.7
Toyo T & B	106.8	271.4	30.2	185.7	34.1	1,024.8
Chuo T & B	67.7	367.6	30.6	915.8	30.6	1,958.9
Nippon T & B	7.3	-	6.7	-	42.6	-
Total	798.1	190.7	316.8	480.7	360.3	1,371.7

Source: Companies

BNI shares surge on first day

By Manuela Saragosa in Jakarta

Shares in the state-controlled Bank Negara Indonesia made a successful debut on their first day of trading, closing nearly 50 per cent higher, in what is expected to set an encouraging precedent for further Indonesian privatisations.

The BNI initial public offering is Indonesia's first privatisation since the difficult offering of Telkom, the domestic telecommunications group, in November last year. Telkom was forced to cut drastically the price and size of its offer only a day before listing, after expected global demand failed to materialise.

BNI shares closed up Rp400 at Rp1,250, against an offer price of Rp850, after hitting a high of Rp1,300 with just under 180m shares changing hands. The bank floated 25 per cent of its enlarged share capital, or 1.085bn shares.

Brokers said most of the buyers were local investors, with some foreigners, most of whom did not receive the allocations they requested, selling. "Many foreign investors will want to see the price stabilise and look at the bank's fundamentals before they start seriously buying," said a trader at a foreign securities house in Jakarta.

BNI's successful debut came in spite of concerns about the quality of the bank's loan portfolio and assets. BNI's non-performing loans at mid-1996 totalled 6.2 per cent of its total loans, a figure which contrasts with the average 2 per cent non-performing loan rate for the rest of the private banking sector.

However, BNI has the highest market capitalisation of the sector, making it an important component of investors' Indonesian portfolios.

Standard and Poor's, the rating agency, yesterday assigned investment grade ratings to four Indonesian state-owned banks and speculative grade ratings to another state-owned bank and eight private-sector banks. It said the outlook for large private-sector banks was more favourable than for many state banks. It maintained a triple-B investment grade rating for BNI.

Indonesian privatisations expected over the next year include a second offering of shares in Telkom and the listing of the electricity utility's power generation units for the Java/Bali grid. Some analysts believe a second Telkom tranche will be announced soon.

US bid for Cepa wins shareholder backing

By John Ridding in Hong Kong

Southern Company, the US electricity group, yesterday moved closer to control of Consolidated Electric Power Asia, after shareholders in the Hong Kong power producer voted to approve its US$2.7bn takeover offer.

Cepa said the 75 per cent threshold for approval was easily exceeded, with Hopewell, the Hong Kong power group's parent company, unanimously voting its 60 per cent stake in favour of the deal.

Yesterday's shareholder approval was regarded as a formality following the decision last month by YTL Corporation of Malaysia to abandon its approach for Cepa. That cleared the way for Southern, which announced its offer in October, to proceed with its plans to expand in the fast-growing Asian power sector.

Mr Stewart Elliot, Cepa chief executive, said the vote was "one more step" towards completion of the agreed bid. Next month the bid will go before the courts in Bermuda, where Cepa is incorporated, for approval. This is expected to be a formality, and the deal is likely to be finalised by the end of the year or early 1997.

Once the agreement has been approved in Bermuda, shareholders will decide whether to choose a cash offer or a cash and share alternative. Under the cash option they receive HK$18.50 for each Cepa share.

The alternative is one new Cepa share for every five shares held, plus HK$69.50. There is an additional cash payment of HK$8 for the alternative offer, contingent on the financing of a power plant in Indonesia. Cepa said it was still in negotiations on funding arrangements for the Tanjung Jati project.

Depending on the decisions of investors, Hopewell will be left with a stake in Cepa of between 12 per cent and 20 per cent. The property and infrastructure group, which is headed by Mr Gordon Wu, will accordingly receive between HK$9.64bn (US$1.25bn) and HK$12.26bn to help bolster its balance sheet and reduce debts. Mr Wu will remain as executive chairman of the Asian power group.

Swire Properties sells control of HK Marriott

By John Ridding

Swire Properties, the property arm of the Swire Group, yesterday announced the sale of a controlling stake in Hong Kong's J. W. Marriott Hotel to a group of Singaporean and local investors.

Swire, which will retain a 20 per cent shareholding in the five star hotel, declined to disclose financial terms. But market estimates suggest that the purchasers, which include CDL Hotels and an investment arm of the Singapore government, are paying about HK$2.2bn (US$284.5m) for their 80 per cent stake.

The long-anticipated deal comes amid a strong upturn in the Hong Kong hotels sector, fuelled by rising room rates and limited capacity. It reflects confidence in the territory's business prospects by overseas investors ahead of next year's return to Chinese sovereignty.

Swire said hotels were not a core business for the UK-controlled group, and that the sale agreement was in line with its strategy of retaining minority stakes.

"It is a good time to sell," said Mr Rohan Dalziell, sector analyst at ING Barings in Hong Kong, referring to the strength of the market over recent months.

The Marriott is one of three five-star hotels which belong to the Pacific Place development on Hong Kong Island. Swire has sold control of the two other hotels – the Shangri La and the Conrad – but retains a 20 per cent stake in each.

Under the terms of the deal announced yesterday, control in the Marriott will be sold to Chishore Enterprise, a vehicle owned 65 per cent by Hotel Nikko Hong Kong, which is controlled by CDL Hotels and Asean Resources. The remaining 35 per cent stake will be held by Recosia, which is wholly-owned by the Singapore government.

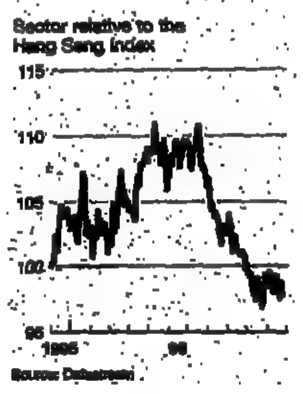
The accord marks a strategic move into the local five-star market by CDL Hotels, the Hong Kong arm of Singapore's Hong Leon group. It already owns several international hotels, including the Gloucester Hotel in London and the Regent in Kuala Lumpur.

Asean Resources, the Hong Kong property and financial services group, already has exposure to the Hong Kong hotel market through its investment in the Hotel Nikko.

J. W. Marriott will continue to manage the 604-room hotel, according to Swire. It said an initial deposit for the acquisition had already been paid, with the balance due on completion of the deal, within three months.

Hong Kong Hotels

Sector relative to the Hang Seng index



Source: Datastream

Gestetner buy helps lift Ricoh 33%

By Gwen Robinson in Tokyo

Ricoh, one of Japan's leading makers of office automation equipment, yesterday reported record interim earnings, helped by the weakening of the yen against the dollar, rationalisation, and the takeover of London-based trading firm Gestetner Holdings in October 1995.

The group, which encompasses more than 350 subsidiaries and affiliates, saw consolidated recurring profits jump 26 per cent to Y28.6bn ($257.13m) in the six months to September. The increase in net profit was even greater – 33.6 per cent to a record Y12.9bn, or from Y13.88 to Y17.61 a share.

This was attributed to the acquisition of Gestetner Holdings and its sales networks in more than 40 countries. The takeover lifted sales by Y55bn, the company said. Overall sales in the period also hit a new high, growing 21.3 per cent to Y632.8bn, while overseas sales shot up 63.2 per cent to Y226bn.

By division, sales of copiers rose 30 per cent to Y393.4bn and information equipment by 6.1 per cent to Y141.4bn. Colour copiers, in particular, are selling well, and are now averaging 50 per cent year-on-year growth in value terms. Ricoh also noted strong sales of network products for computer users such as the Imagio MF200 digital photocopier, PC Laser NX-100 printer and DC-2 digital camera.

In the second half, Ricoh is likely to reap even greater benefits from the acquisition of Gestetner, said Mr Kimihide Takano, analyst at Dresdner Kleinwort Benson. "The synergy effect between the two over this term will be even greater, as it was too early in the first year of the acquisition to achieve substantial momentum."

For the full year, Ricoh expects consolidated recurring profit to rise 21.1 per cent to Y60bn on sales of Y1,288bn, up 15.7 per cent.

● Sharp, another leading maker of office automation equipment as well as consumer electronics, yesterday reported increased earnings for the third consecutive six-month period, on steep growth in domestic sales of communications equipment and overseas sales of personal computers and other information technology.

Consolidated recurring profit rose 1.4 per cent to Y42.8bn on sales of Y865.3bn, up 7.8 per cent, in spite of a decline in prices. Consolidated net profit rose 8.9 per cent to Y24.2bn, or Y21.62 a share, up from Y19.98.

ITC better than expected with 28% net profit rise

By Kunal Bose in Calcutta

ITC, India's largest tobacco group, yesterday reported better than expected interim sales and profits. Pre-tax earnings climbed 26 per cent to Rs2.92bn ($80m). The increase was driven by the strong performance of the two core businesses, tobacco and cigarettes.

Net income rose 19 per cent to Rs14.19bn, while net profits were up 28 per cent to Rs1.81bn. Trading margins improved from 26 per cent to 31 per cent. ITC said the "strong improvement in profits was despite the provision of over Rs500m on account of past liabilities".

Earnings per share rose 27.37 per cent to Rs14.8. Shares in ITC slipped from Rs280 to Rs277.65.

Analysts said the group was unaffected by a series of problems since the start of the year, such as the face-off between BAT, the UK group that owns 32 per cent of ITC, and Mr Yogesh Chander Deveshwar, ITC chairman, over the group's management structure, and the investigation by finance ministry officials into alleged violation of foreign exchange regulations. They expect ITC, which has nearly 60 per cent of the Indian cigarette market, to do equally well in the second half.

Exports were up nearly 35 per cent to Rs3.57bn. Following the restructuring of international trading operations, export activity is concentrated on tobacco and cigarettes.

The management restructuring has begun with the appointment of two independent non-executive directors, Mr Ram S Tarneja, who was managing director of Bennett Coleman, which owns the Times of India publications, and Mr B Vijayaraghavan, a retired civil servant. "They are the unanimous choice of the Indian financial institutions which own 38 per cent of the company and of BAT," said an executive. ITC will appoint one more non-executive director soon.

AMERICAS NEWS DIGEST

Applied Materials buys Israeli group

Applied Materials of the US, one of the leading suppliers of wafer fabrication system and services to the global semiconductor industry, yesterday announced it was paying $285m for all of Opal and Orbot Instruments, subsidiaries of Clal Industries, the Israeli conglomerate.

The move will give Opal and Orbot Instruments, leading suppliers of CD-SEM systems and wafer and recticle inspection systems respectively, greater access to a larger customer base on the back of Applied Materials' global infrastructure. The Santa Clara-based company had revenues of $4.1bn this year, a 35 per cent increase on last year. Net income rose nearly one-third, from $400m in 1995 to $600m in 1996. The Asia market accounts for more than 50 per cent of sales. The deal will also give both companies greater access to capital for research and development. Opal, which recently acquired ICT, the German scanning electron microscope maker, had sales of $82m for the 12 months to September 30. Orbot Instruments had sales of $36m over the same period.

Applied Materials will tomorrow begin a cash tender offer for all outstanding shares of Opal's common stock at a net $18.50 a share, amounting to about $175m. It will pay $110m in cash for Orbot Instruments.

Judy Dempsey, Jerusalem

Mexican coal terminal agreed

Grupo Mexicano de Desarrollo (GMD) and the Mexican subsidiary of Techint, the Italian company, have signed an agreement with Mexico's Federal Electricity Commission to build a $230m–250m coal terminal for an electricity generator in Petacalco, southern Mexico.

Over the weekend it was announced that GMD and Techint had won a competition for the 30-year concession to build and operate the coal terminal for the 2100MW Petacalco generator, which can be powered by either coal or fuel oil. The decision ended a process which had begun in 1993 and which, like many other Mexican energy projects, had been stalled by financing and contractual concerns.

GMD, one of Mexico's biggest construction firms, was severely affected by Mexico's sharp recession and continues to suffer from the failure of expensive toll-road projects.

Daniel Dombey, Mexico City

Help for Canadian Airlines

Mr David Anderson, the Canadian federal transport minister, yesterday became involved in negotiations to save Canadian Airlines International from a threatened cash crisis next January. The airline at the weekend reached a settlement with its 2,700 flight attendants for a contract to replace one that expired a year ago.

Details were not available, but the new contract does not cover a 10 per cent across-the-board pay cut being demanded by CAI as part of its latest restructuring plan. CAI pilots have agreed to the cut and its machinists say they will accept a cut for the higher-paid. But the ticket agents and other unions oppose any cut.

Mr Kevin Benson, CAI president, is negotiating a C$48m (US$35.9m) reduction in the cost of services provided by American Airlines, which has a 25 per cent voting interest in CAI. Concessions are also being sought from other suppliers.

Mr Anderson, who represents a British Colombia constituency, said he would consider helping CAI only when the restructuring was fully in place. But CAI shares firmed 50 cents to C$2.30 yesterday following the new round of talks.

Analysts now expect the restructuring dealine of November 29 to be extended. Altogether, CAI seeks about $150m of immediate cost-savings to see it through the critical post-Christmas season.

Robert Gibbens, Montreal

Light back in black

Light, the Rio de Janeiro electricity group which in May became Brazil's biggest privatisation so far, returned to the black in the first nine months of this year with net profits of R$76.29m (US$74m). This compares with a loss of R$59.9m in the same period last year. Revenues rose to R$1.16bn from R$916.8m.

The group, which has around 9 per cent of the Brazilian electricity distribution market, said it had invested $45m on improvements to its infrastructure since privatisation. The sale of Light, which was the second electricity distribution company in Brazil to be privatised, raised $2.22bn for the government. Electricité de France, along with two US partners, emerged as the largest shareholder, taking 34.7 per cent. Electrobrás, the federal government's electricity holding company, retains a 21.6 per cent stake, while CSN, a Rio de Janeiro steel group, bought a 7.25 per cent holding.

Along with Cerj, the Rio de Janeiro electricity distribution company privatised last week, Light is still waiting for the government to finalise the regulatory framework it will operate under in the private sector. However, the company has already been given approval by the government to raise its tariffs in line with inflation next year, which was seen as a signal that the company would not be subject to political interference.

Geoff Dyer, São Paulo

Aiwa signs Brazilian deal

CCE, the Brazilian electronics company, has struck an agreement with Aiwa, the Japanese electronic goods maker, to produce Aiwa stereos in Brazil for sale in the Mercosur customs union. The two have so far invested $30m in the deal and CCE expects to begin output of Aiwa stereo mini-systems in 1997.

Reuter, São Paulo

Borland names chairman

Borland International, which provides products and services to software developers, said it appointed Mr Delbert W. Yocam, a former senior executive at Apple Computer, as chairman and chief executive officer. Mr Yocam, who will begin work on December 2, served as Apple executive vice-president and chief operating officer from 1986 to 1988, and president of Apple Pacific from 1988 to 1989. He also served as president and chief operating officer of Tektronix.

Reuter, California

CBL pays $86.4m for mall

CBL & Associates Properties, the US real estate investment trust, acquired St Clair Square, a 1.04m sq ft mall in Fairview Heights, Illinois, for $86.4m. The mall is 93.7 per cent occupied, with sales in 1995 of $329 a square foot. The company said the acquisition was funded on an interim basis with a $66m loan from Wells Fargo bearing interest at 150 basis points over Libor with a three-year term and a two-year extension option. The balance of the purchase price was funded through the company's credit facilities. Based on annualised revenues from signed leases in place, the net operating income from the property is expected to be about $7.7m for 1997.

AP-DJ, Tennessee

AOL tightens link with Excite

America Online has agreed a deal to make Excite the exclusive Internet search and directory service for America Online's more than 7m subscribers. In addition, Excite will acquire AOL's WebCrawler search and directory service for about 2m Excite shares, raising AOL's holding in Excite to about 20 per cent from its current 10 per cent.

The companies will also explore ways to better integrate "smart search" capabilities throughout America Online's information channels.

Reuter, Virginia

KeyCorp plans national network

By John Authers in New York

KeyCorp, the Cleveland-based commercial bank, yesterday announced it was taking a $100m charge for this quarter and laying off 10 per cent of its workforce as part of a restructuring designed to create a national branch network.

The restructuring is the final step of the bank's plan to prepare for the lifting of legal restrictions on interstate banking next year. It now has 12 separate banks operating in 44 states, in four regional systems.

It also comes in response to pressure from Wall Street for cost-cutting in its huge branch network, which was formed largely by the merger of Society Banks and KeyCorp in March 1994.

The interstate banking legislation, which was passed in 1995 and comes into force in July next year, allows banks to operate branches in more than one state. According to current federal law, banks can own branches across state lines, but each state branch network is legally separate. This is inconvenient for depositors and creates extra expense for the banks.

Now, KeyCorp says, it will be able to operate "like McDonald's or Sears", as a retail chain.

After the restructuring, KeyCorp, which has assets of about $66bn, will be reduced to two nationwide distribution systems – a national retail branch network and a centralised head office known as KeyBank USA.

KeyBank USA will sell products such as credit cards, auto loans and home equity finance, and will increasingly use new methods of distribution such as 24-hour telephone lines and the Internet.

The charge includes $52m in redundancy payments, to meet the 2,700 job losses which will be distributed throughout the company. KeyCorp will also close or sell about 140 of its branch offices – mostly in rural areas – to leave it with about 1,000, incurring a charge of $20m.

The branch network is intended to focus on community and corporate banking products and services, while its personnel will be trained to look for cross-selling opportunities for other products.

KeyCorp had made several strategic acquisitions and disposals over the last 18 months as part of the strategy, buying a car finance lender and a merchant bank, and disposing of its mortgage processing business.

A further $28m will come from technology write-offs. Several of its present systems are used only to run its multi-bank structure and would become redundant.

Mr Bob Gillespie, chief executive, predicted that the restructuring would add about $110m to annual earnings by the end of 1997.

Wall Street appeared to endorse the package, and the company's share price rose \$1¼ to \$50⅝ in early trading.

Bob Gillespie: restructuring will add $110m to earnings

Argentine airline poised for US partnership

By David Pilling in Buenos Aires

Aerolíneas Argentinas expects to sign a code-sharing agreement with a big US carrier within weeks.

The deal could include the purchase of an equity stake in the Argentine flag carrier, according to company president Mr Manuel Morán.

Under the deal, Aerolíneas would be likely to increase the frequency of its flights to Miami, New York and Madrid – which are among its most profitable destinations – while sharing other routes with its new partner.

Aerolíneas, which hopes to return to a modest profit in 1996 after several loss-making years, is operated by Iberia, the state-owned Spanish carrier.

Iberia took control of Aerolíneas when it was privatised in 1990, but now holds only a 20 per cent stake after an EU ruling on a rescue plan for the Spanish airline forced it to sell several loss-making assets.

American Airlines, which is understood to be the principal contender, would not confirm reports of an imminent agreement with Aerolíneas, saying only that "we talk to a lot of people a lot of the time".

Although it does not have a track-record of buying stakes in other airlines, American did not rule out such a move. "We will do whatever we need to stay competitive," it said.

A further 63.35 per cent of Aerolíneas belongs to Interinvest, a consortium formed by Teneo, the Spanish state holding company, as well as US investment banks Merrill Lynch and Bankers Trust.

The Argentine government holds 5 per cent, airline employees a further 10 per cent, and local investors the remaining 1.65 per cent.

Last May, Aerolíneas agreed to the sale for $140m of its 89 per cent stake in domestic airline Austral to Interinvest.

In the six months before the sale, Aerolíneas had lost $134m, while Austral had registered a profit of about $10m.

Prozac approved as bulimia treatment

By Tracy Corrigan in New York

Prozac, the antidepressant developed by Eli Lilly, has been approved by the US Food and Drug Administration for the treatment of bulimia nervosa.

It is the first medicine to be cleared by the FDA for the treatment of the eating disorder, which affects more than 1m Americans, almost exclusively women, each year.

Prozac is the world's most widely prescribed branded antidepressant, with worldwide sales of $1.75bn for the first nine months of this year.

But its growth is slowing: Prozac sales are expected to increase about 13 per cent this year, compared with 24 per cent in 1995, according to Mr Kenneth Kulju, a pharmaceuticals analyst at UBS in New York. The drug faces growing competition from new antidepressants, Pfizer's Zoloft and SmithKline Beecham's Paxil.

While the latest approval for Prozac is not expected to propel sales back to the phenomenal growth rate of the drug's early days, "each new approval generates confidence that it is a very safe medication," Mr Kulju said.

The likely impact on sales of the bulimia approval is difficult to estimate. The potential market of 1m sufferers is large, but some bulimia sufferers may already be prescribed Prozac: it has already been approved by the FDA for the treatment of clinical depression and obsessive-compulsive disorder, and about 80-90 per cent of bulimia sufferers also suffer from depression, according to Dr Mark Demitrack, a clinical research physician at Eli Lilly.

It is also believed that less than 25 per cent of bulimia sufferers are diagnosed with obsessive-compulsive disorder. Furthermore, doctors can prescribe drugs for non-approved uses.

However, psychotherapy has traditionally been the primary treatment for bulimia. According to Dr Freda Lewis-Hall, director of the Lilly Center for Women's Health, the ideal treatment for most patients is likely to be a combination of medication and psychotherapy.

Efficacy studies for bulimia show that the effect of Prozac on sufferers is not dependent on whether or not the patient is depressed, Dr Demitrack said. In eight-week clinical trials, women treated with 60mg of Prozac daily experienced a 67 per decrease in binge-eating and a 56 per cent decrease in self-induced vomiting.

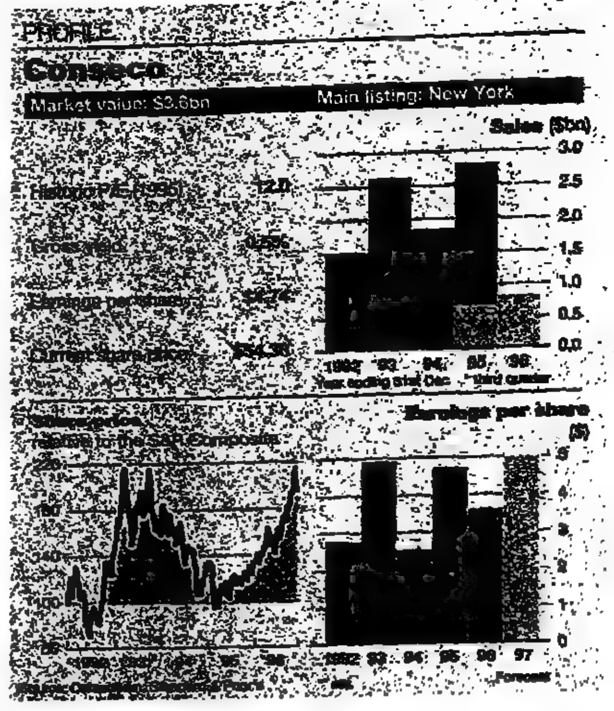
The use of Prozac to treat anorexia nervosa, an eating disorder involving food deprivation rather than bingeing, is currently being tested.

Anorexia is believed to affect only 1 per cent of the population, compared with 3 per cent for bulimia, according to Eli Lilly.

Conseco finds strength in acquisition strategy

The US group's 10-year buying spree has sent an unwelcome message to the insurance industry

The US life assurance industry was not ready for Mr Stephen Hilbert. But now that Conseco, the Indiana-based company he started in 1979, has bought 22 life companies within a decade, making it one of the largest concerns in the current wave of consolidation hitting the industry, it has no alternative but to pay him attention.



In April this year, Conseco joined the Fortune 500 group of companies, of which it has the second-highest total return over the past 10 years. Once its latest agreed acquisitions are completed, it will have $30bn in assets under management, annual premium income of $6.8bn, and a cash flow of about $550m in projected annual earnings before interest and taxes.

Mr Hilbert's message – that the industry needs to consolidate – is not welcome, but it is endorsed by many industry observers. They believe the sector cannot compete with the banks, which are now steadily being freed by regulators to sell insurance, or with mutual fund companies which are diversifying into life products.

"I believe the small life company today is absolutely doomed. Consolidation is not an option, it's a necessity," Mr Hilbert told a conference in New York earlier this month. "All you have to do is take a look at the financial services sector. Then you look at the life assurance industry and we look like Mom and Pop's corner stores."

'I believe the small life company today is absolutely doomed. Consolidation is not an option, it's a necessity,' Mr Hilbert told a conference in New York earlier this month

He blames mismanagement for the problems: "The opportunity I saw was a wonderful industry which was totally under-managed. Self-preservation always came first. They were inside-the-box managers – same old products, same old distribution and little need to manage costs."

This meant life companies ceded opportunities to rivals elsewhere in financial services: "When I think of the mutual fund industry today it makes me want to throw up. That should be our business. All of those clients were our customers and we didn't have the foresight to take advantage of it."

The only way they knew to compete, he said, was by making "dumb investments" – meaning the sector's ill-timed foray into real estate in the late 1980s.

If this sounds arrogant, then at least Mr Hilbert can speak with the authority of strong stock market performance. Since it floated in 1985, Conseco stock has had a 55.5 per cent compound annual growth rate, generated by acquisitions and fierce internal cost-cutting.

Its results for the third quarter of this year continued the trend, with earnings per share, at $1.01, significantly exceeding the consensus of analysts' forecasts for 94 cents.

Cost savings from the latest acquisitions helped. During the quarter, Conseco had completed the acquisition of Life Partners Group, and consolidated its headquarters into the head office near Indianapolis, reducing annual operating expenses by $25m. It plans to cut another $10m-$15m next year by using improved administration systems.

Conseco has not been on an undisciplined buying spree, a charge which could possibly be levelled against GE Capital, the only company to have spent more on life acquisitions in the past few years.

Instead, the Conseco strategy has been to focus on specific niches where it sees opportunities for growth, and where it has developed some expertise. This means long-term care insurance, which pays for nursing home care for the elderly, cancer insurance, Medicare supplement insurance – also aimed at the elderly – and a range of annuities.

The theory is that US demographics, with the generation born in the post-war "baby boom" now beginning to reach their 50s, will drive growth in all of these markets. Reforms to healthcare and entitlements, now at the top of the political agenda, could also help the sector.

Further, the acquisitions have built a diversified distribution network of 90,000 employed agents, who can each generate sales for other Conseco companies.

The acquisition campaign to build the business underwent three distinct phases. The seven purchases made between 1982 and 1989 were all wholly-owned subsidiaries, bought with debt.

This strategy grew harder to operate, however, as rating agencies began to clamp down on the life assurance sector in the wake of its real estate losses. Thus between 1990 and 1994 Conseco bought another five life companies using a partnership, including GE Capital among its partners. This kept the acquisitions off Conseco's balance sheet.

Since 1994, the company has been buying its partners out, and has made six acquisitions using its own paper as well as debt. Its target, made to keep in line with the rating agencies, is to have no worse than a 35 per cent ratio of debt to capital.

The strategy for the future is to keep on acquiring; although Mr Hilbert insists he would not "do any deal which comes along", or get involved in an auction. Further ahead, Conseco might look at joint ventures in Europe, and marketing alliances with US banks.

Internally, the aim is to persuade as many employees as possible to take a stake in the company. As a former door-to-door encyclopaedia salesman, who started out as a life assurance salesman, Mr Hilbert believes that the industry, still dominated by mutuals, has been held back by a lack of incentives: "About 35 per cent of our associates are shareholders and I'd like to make that 100 per cent. I have 6.6m shares. That's putting your money where your mouth is."

John Authers

Technology group announces rise in orders and underlying interim profits advance of 15%

AEA unveils strong maiden achievement

By Jane Martinson

AEA Technology yesterday capped a strong stock market performance since its September privatisation when it reported an increase in orders and a 15 per cent rise in underlying interim pre-tax profits.

Since flotation, the nuclear decommissioning and technology group's share price has risen almost 40 per cent, performing more than twice as well as the market as a whole.

The shares ended at 389p yesterday, up 1½p, compared with a flotation price of 280p.

Sir Anthony Cleaver, chairman, said that the company, which had previously worked almost exclusively for the government's atomic energy authority, had been difficult to price.

But its message, that it was not a nuclear company but a science and technology group, had eventually "caught people's imaginations".

The group's anticipated growth into international and private sector markets was underlined by a 13 per cent increase in new orders – totalling £165.6m ($279.9m) – in the six months to September 30. More than half of these were won in overseas markets and the UK's private sector.

Kleinwort Benson, the investment bank, increased its pre-tax profits forecasts for 1997-98 by £1m to £25.8m, partly as a result of the new orders.

Pre-tax profits rose 15 per cent to £6.1m in the period, before an exceptional £5m restructuring charge to cover advisers' fees. As a result of this, and the company's first tax charge, earnings per share fell sharply to 0.9p, from 6.6p.

Total sales rose 3 per cent to £111.8m (£108.3m).

The UK private sector and overseas business contributed 47 per cent of the total, up from 39 per cent last year.

Half of the group's sales comes from the non-nuclear sector, with strong growth from the sale of licences for lithium ion batteries in Japan.

AEA's engineering services division, which mainly supplies the UK's Atomic Energy Authority – still the group's largest customer – saw a 12 per cent decline in sales to £31.4m.

However, developments in the nuclear field included a new contract to help with training and technology in China's burgeoning nuclear industry.

Operating profits rose 18.5 per cent to £6.4m (£5.4m), chiefly as a result of a cost-cutting exercise in the run-up to privatisation in which 1,200 jobs were cut – a quarter of the group's total. Margins improved from 5 per cent to 5.7 per cent.

A first dividend of 2.75p was declared.

Forecast pre-tax profits of about £22.5m put the shares on a forward multiple of just under 22 times, a 45 per cent premium to the market.

LEX COMMENT

Salvesen

Christian Salvesen's long-awaited restructuring does little for investors. The real shareholder value was released in July, when a bid approach from rival logistics group Hays sent Salvesen shares up from 250p to settle at around 320p. Yesterday's dividend-and-demerger package merely allows them to sustain that sort of level and explains why they dropped 1½p to 322½p. Taking Salvesen's proposals in turn, there is some merit in handing £150m back to shareholders through two special dividends. Replacing expensive equity with cheaper debt should boost earnings. But, by itself, it does not add much value. Shareholders will expect a higher return from a more heavily-indebted Salvesen because they are assuming greater risk.

Demerging Aggreko, the plant hire subsidiary, from the logistics business also has advantages. Two separate, focused businesses are easier to value, easier to run and each may attract a bid. But assuming a market average multiple of 15 times earnings for logistics, today's share price already implies a premium rating of 19 times for rapidly-growing Aggreko. On top of that, investors will have to bear the costs of demerger and of running two quoted companies.

Despite the restructuring, therefore, it is hard to escape the conclusion that shareholders would have been better off accepting the Hays proposal. They might note that Hays' indicative cash and shares bid would be worth 455p a Salvesen share today.

WM to run Schroder funds

By William Lewis, Investment Correspondent

Schroder has appointed the WM Company, the Edinburgh-based investment management specialist, to administer its 35 retail and institutional unit trusts.

The assets of Schroder's unit trusts are valued at more than £12bn and the outsourcing deal is one of the largest in the UK's fund management industry.

Earlier this year WM was awarded the contract to provide all of the investment administration work for Scottish Widows' £22bn asset portfolio.

WM will now be responsible for valuing Schroder's unit trusts daily, maintaining accounting records and other administrative functions.

"We have taken over the back office facility," said Mr Stewart Crawford, WM's managing director.

Investment managers are becoming increasingly keen to outsource administration of their funds to help them focus on their core investment activity.

WM, which is owned by Bankers Trust, is the largest provider of outsourced investment administration in the UK. Last week it announced it had been appointed by POIS Assurance and Waverley Unit Trust Management, two small fund management companies, to administer their portfolios. WM now services more than 20 fund managers and pension funds who together have more than £90bn under management. "Outsourcing our unit trust valuation and accounting processes to WM ... allows us to focus on our core business activity," said Mr Brian O'Sullivan, finance director of Schroder Unit Trusts.

Mr Clive Boothman, managing director of Schroder Unit Trusts, said it had been using WM to carry out some administrative functions for several years "so theirs was a system we were already familiar with".

US interest likely in Ashbourne approach

By Alexandra Capelle

Ashbourne, the UK nursing home group, said yesterday it had received an approach which could lead to a bid. The shares rose 22p – or 15.8 per cent – to 161p, valuing the group at £86.5m ($146.2m).

Mr Tom Hamilton, chief executive, did not name the bidder or say what price had been proposed. Analysts said Sun Healthcare, the US group which already holds a stake of 29.2 per cent in Ashbourne, was most likely to have approached the group.

Sun Healthcare considered buying Ashbourne before the UK group's 1994 flotation, which valued it at £80.5m. It took a 15 per cent stake in May 1995, at the flotation price of 150p, and has since increased its holding.

One analyst said it had been an "open secret" that Sun Healthcare had been offering to buy Ashbourne at 170p a share, with Ashbourne demanding closer to 200p. Sun Healthcare said: "We do not comment on rumours."

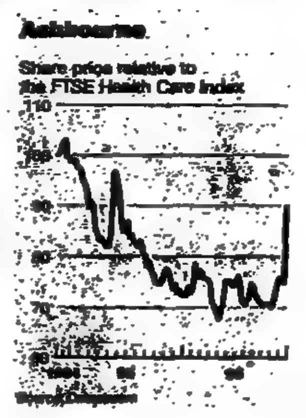
The approach follows this year's failed bid for Goldsborough by Westminster, Court Cavendish's merger with Takare, and the takeover of Apta by Exceler. The merger trend has been driven by the need for consolidation in the over-supplied healthcare market.

Ashbourne, which runs about 3,500 beds in 46 homes, announced full year pre-tax profits before exceptional items down 3 per cent to £6.2m from £6.5m on a like-for-like basis. Operating profits, after a £940,000 deduction of depreciation, fell to £5.7m from £6.4m.

Following Ashbourne's entry into the sale and lease-back market, a £6.4m capital gain raised total pre-tax profits to £11.7m.

Earnings per share, including the gain, were up 62 per cent at 21.8p. A final dividend of 2.8p, up from 2.2p, increases the total 27 per cent to 4.2p.

Mr Hamilton said the results were flatter than he had wished, with a decrease of 6 percentage points in occupancy to 83 per cent.



IMI in $150m US buy

By Richard Wolffe, Midlands Correspondent

IMI, the international engineering group, yesterday expanded its fluid power operations with the £89m ($150m) acquisition of ISI Automation of the US.

IMI said the acquisition was "an exciting springboard" for sales of its existing products to US automotive manufacturers.

IMI's fluid power subsidiary, Norgren, will also use its distribution network to market ISI products internationally.

ISI, based in south-east Michigan, specialises in supplying pneumatic components to US automotive manufacturers, for use in handling systems such as grippers and clamps in car assembly lines.

Mr Nick Paul, director of IMI's fluid power group, said: "The automotive industry represents 20 per cent of total demand for pneumatic components worldwide. While our products have been making good progress in getting into the automotive sector, we miss some very key components which ISI produces."

In addition to marketing synergies, IMI said the two subsidiaries would benefit from joint product development. Both companies will also lift demand for each other's products by replacing their use of competitors' components.

In 1995 ISI reported operating profits of $15.6m on sales of $99m. It is a family-owned company, managed by its principal shareholders, Doug and John Blatt, who will be retained as consultants after the deal is completed.

The US deal bears many similarities to IMI's £134m purchase of Heimeier of Germany in January. Heimeier, which produces radiator valves, was also a private company offering complementary products to IMI's existing range.

The acquisition is to be financed mostly by bank borrowings, with $140m paid in cash and the remainder depending on future profits.

Brendan Corr

Gary Allen (left), chief executive, with Nick Paul

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abacus Polar	Yr to Sept 30	96.4	(86.5)	8.93	(8.62)	13.5†	(12.9)	3.67	Jan 31	3.2	5.5	4.8
Adare Printing ‡	6 mths to Oct 31	55	(54.4)	5.23	(4.1)	32.92	(27.7)	3.12	Feb 7	3.06	-	5.06
AEA Technology	6 mths to Sept 30	111.8	(108.3)	1.1♦	(5.3)	0.9	(6.6)	2.75	Feb 3	-	-	-
Appl'd Holographics	6 mths to Sept 30	4.14	(3.47)	0.242L	(0.051)	0.92L	(0.2)	-	-	-	-	-
Ashbourne	Yr to Sept 29	32.3	(26.7)	11.7♥	(6.5)	20.7†	(12.5)	2.8	Feb 6	2.2	4.2	3.3
Euromoney	Yr to Sept 30	104.3	(115.2)	25.5	(18.2)	75.93‡	(49.87)	32	Jan 24	29.5	48	43.5
Field	6 mths to Sept 29	108.5	(97.3)	10.6	(9.07)	13.3	(11.5)	3.1	Feb 24	2.8	-	8.5
Filofax	6 mths to Sept 30	21	(19.9)	2.06	(2.91)	4.9†	(7.4)	1.5	Mar 27	1.35	-	3.35
FirstBus	6 mths to Sept 30	248.5	(174)	23.5♦	(9♦)	9.5†	(2.9)	1.8	Feb 19	1.6	-	5
Hercules Property Φ	6 mths to Sept 30	0.992	(0.596)	0.39	(0.031)	11.82	(-)	-	-	-	-	-
JLI	6 mths to Sept 30★	37.2	(40.7)	8.81L♦	(2.84♥)	22.4L‡	(5.7)	1.85	Jan 24	1.65	-	4.95
Marling Inds	6 mths to Sept 30	34.4	(32.5)	0.92	(2.48)	0.07	(0.83)	0.12*	Apr 3	0.25	-	0.77
Merrydown	6 mths to Sept 30	19.4	(18.4)	0.673	(1.16)	3.57	(7.11)	2.1	Jan 21	2	-	4.5
Micro Focus	9 mths to Oct 31	52.3	(54.5)	8.37L	(4.77L)	57.7L	(32.6L)	-	-	-	-	-
ML Laboratories §	Yr to Sept 30	10.4	(1.14)	5.45	(3.4L)	3.8†	(2.5L)	-	-	-	-	-
Nat'l Home Loans	Yr to Sept 30	-	(-)	18.1	(15.1)	20.6†	(22.5)	1.3	Feb 3	1	2.4	1
Network Tech Φ	16½ mths to Sep 30	18.8	(-)	1.53	(-)	0.75	(-)	0.5	April 1	-	0.5	-
Quiligotti §	6 mths to Sept 30★	5.22	(5.83)	0.403	(0.381♥)	0.9	(0.83)	-	-	-	-	-
RM	Yr to Sept 30	99	(80.7)	6.81	(5.02)	25.8	(20)	6.2	Feb 3	4.5	8	6
Salvesen (C)	6 mths to Sept 30	381.3	(345.9)	51.6♥	(45♥)	12.3	(10.84)	20.8♦	Feb 3	3.3	-	8.65
Sketchley	6 mths to Sept 28	74.2	(71.4)	4.78	(4.32)	5†	(4.9)	1.1	Jan 3	1.1	-	3.5
South Staffs Water	6 mths to Sept 30	32.4	(30.4)	8.67	(7.71)	107	(95)	28	Jan 2	23	-	77
Trinity Care Φ	6 mths to Sept 30	4.95	(2.88)	0.322♦	(0.221)	4.3†	(6.9)	1.6	Dec 20	1.5	-	4.8
Wynnstay Props Φ	6 mths to Sept 29	0.762	(0.763)	0.123	(0.116)	2.39	(2.98)	1.65	Dec 16	1.5	-	4.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British	6 mths to Sept 30	274	(253)	12	(11.3)	3.86	(3.62)	2.3	Jan 12	2.2	-	5.5
Jupiter Geared ♠	6 mths to Sept 30	75.16	(71.82#)	0.801	(0.502)	4.29	(3.58)	1.493‡	Dec 30	1.403	-	7.786
Korea Asia Fund $	6 mths to Sept 30	20.87	(24.36)	0.887L	(1.54L)	0.064L†	(0.122L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. ‡Irish currency. ♦After exceptional charge. ♥After exceptional credit. ‡On reduced capital. *Foreign income dividend. ΦAIM stock. §USM stock. ★Comparatives restated. ♦Includes 17p special. #At March 31. ‡Second interim; makes 2.883p to date. $US currency.

Australian sale lifts Euromoney

By Ross Tieman

Euromoney Publications, the magazine, training and exhibitions group, recovered strongly from its 1995 profits dip to achieve pre-tax profits of £25.5m ($43m) during the year to September.

The 40 per cent improvement was aided by the disposal of AIC, the lossmaking Australian seminars business, to its management for £6.9m in December 1995.

AIC cost Euromoney £362,000 during 1995, against £1.25m the previous year. Operating profits from continuing operations, at £21.9m, were ahead 33 per cent. Acquisitions added a further £327,000 to the total.

The company said that even if AIC was disregarded, the 1996 profits were still comfortably ahead of any figure previously achieved.

Earnings, at 75.93p per share, were ahead 52 per cent, bolstered by the impact of a share buy-back. This summer, the company spent £9.9m to buy-in 794,550 shares, some 3.6 per cent of the issued capital.

Mr Richard Ensor, chief executive, said 1996 had been "very satisfactory". The financial publications had continued to perform well, he said, turning in operating profits of £11.5m.

The training businesses, which cover areas related to many of the company's publications, also had a good year.

Euromoney had net cash of £27.4m at the year end, after spending £5.6m on acquisitions. It had no plans to provide against libel claims totalling £67m lodged in the High Court in Malaysia over an article in one of its magazines: the company felt it had a strong case and adequate insurance should it lose.

Aggreko helps Salvesen

By Ross Tieman

Christian Salvesen, the Scottish distribution and power supply group, lifted interim pre-tax profits 14.7 per cent to £51.6m ($87.2m) largely due to a strong performance by Aggreko, its generating and cooling equipment hire subsidiary.

Aided by sizeable contracts for the Atlanta Olympics, Aggreko lifted operating profits 30 per cent to £23.7m during the six months to September 30.

Aggreko is to be demerged during the second half of next year if proposals unveiled yesterday are accepted by shareholders.

Mr Chris Masters, Salvesen's chief executive, said Aggreko now had operations in 20 countries, and the emphasis of its investment programme had shifted from opening depots to increasing stocks of equipment for hire.

Profits growth at the core logistics business, however, had been held back by tough competition and contract problems in the UK. Overall, the distribution business lifted operating profits 2.6 per cent to £23.4m.

In continental Europe, where Salvesen is now a market leader, trading profits were adversely affected by heavy start-up costs connected with new contracts. These included setting up automated warehouses in Belgium for United Biscuits and the Netherlands for Friesche Vlag.

In the US, Salvesen was reviewing its strategy after seeing profits decline by 12.3 per cent to £5.7m.

CORRECTION

Lloyds Chemists

In an article published yesterday, we suggested that changes to the contracts of the executive directors of Lloyds Chemists had been introduced since Lloyds had received bids from UniChem and Gehe earlier this year.

The article said the changes would give the directors two years' gross contractual remuneration should they be dismissed or resign from the group within six months of its being taken over.

We accept the article was misleading. The changes to the contracts of Lloyds' executives were introduced last year and accordingly pre-dated the bid approaches. The changes were on display at the annual meeting in November 1995 and were also disclosed in the offer document published by UniChem in January 1996. We apologise to the directors of Lloyds Chemists.

In an article published on November 6, 1996, we suggested that Mr Allen Lloyd had sold 3m shares in the company in addition to the 3m sold by his wife. In fact, Mr Lloyd sold no shares and we are happy to correct

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 25.11.96: Pool purchase price £/MWh	Final Prices for Trading on 20.11.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.69	11.66	11.66
0100	11.71	11.68	11.66
0130	15.51	11.65	[illegible]
0200	15.51	11.66	11.66
0230	11.71	11.63	11.63
0300	11.72	11.65	11.66
0330	11.72	11.66	11.66
0400	11.71	11.66	11.69
0430	11.70	11.63	11.63
0500	11.70	11.62	11.62
0530	11.70	11.62	11.62
0600	11.69	11.65	11.53
0630	11.69	11.65	11.69
0700	18.96	[illegible]	12.57
0730	18.99	18.94	17.82
0800	19.10	18.97	17.88
0830	19.21	17.02	17.94
0900	19.50	17.16	18.13
0930	54.09	21.96	22.57
1000	54.24	21.87	22.88
1030	30.75	21.81	22.81
1100	19.70	17.22	18.21
1130	19.74	39.90	40.94
1200	19.76	40.52	41.59
1230	19.64	40.49	41.54
1300	19.43	40.37	41.39
1330	19.23	17.17	18.14
1400	19.20	17.15	[illegible]
1430	19.20	17.12	18.07
1500	19.21	17.12	18.09
1530	19.44	17.18	18.16
1600	24.85	18.11	19.47
1630	73.74	31.67	38.12
1700	158.09	158.66	201.65
1730	219.46	266.01	319.30
1800	186.79	265.03	336.42
1830	96.65	173.34	208.65
1900	52.35	72.39	86.40
1930	26.52	37.82	44.12
2000	21.23	23.91	26.34
2030	19.19	19.47	20.74
2100	18.97	17.27	18.26
2130	18.98	18.58	17.68
2200	18.95	[illegible]	17.82
2230	11.73	28.34	28.22
2300	11.69	28.34	29.22
2330	11.69	[illegible]	17.61
2400	11.69	11.66	11.66

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

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INTERNATIONAL CAPITAL MARKETS

Re-entry into ERM bolsters Italian BTPs

GOVERNMENT BONDS

By Richard Adams in London and Lisa Bransten in New York

Optimism over Italy's re-entry into the European exchange rate mechanism helped Italian government bonds (BTPs) shrug off bad news on markets yesterday.

On Liffe, the BTP future contract rose steeply in morning trading to 128.70, up 0.78 from Friday's close. But news that Mr Romano Prodi, the Italian prime minister, may be investigated over events during his involvement with Iri, the state holding company, caused the December contract to sink to 127.45. It later recovered to settle at 128.08.

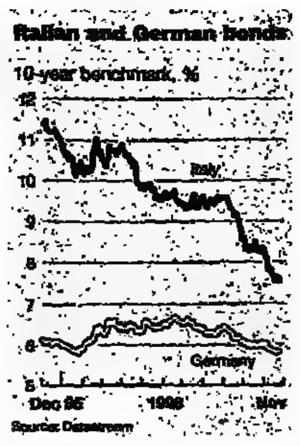
In the cash market, the yield on the benchmark 10-year BTP was little changed over German bunds at 175 basis points, down two basis points from last week. The 10-year benchmark ended at 112.74, a rise of only 0.1, to yield 7.57 per cent.

Analysts in London said that the lira's re-entry into the ERM had been already been priced in, and questioned how much "convergence" optimism Italian bonds had left in them.

Mr David Brown, chief European economist at Bear Stearns in London, said the lira's re-entry signalled that there was little good news left for Italy and Spain.

"We're now starting to get concerned about some of the more negative Emu pitfalls and risks. As far as we are concerned, Emu and convergence expectations have far exceeded underlying economic reality," he said.

Mr Brown said Bear Stearns has been advising its clients to start moving out of Emu-generated investments for the past week. "In other words, we believe the party's over," he said.



But other analysts remain more optimistic about the process, even if they think there remains little room for further convergence by Italian yields.

Mr Huw Roberts, European bond analyst at NatWest Markets, said there was a great temptation to take profits from the rise in Italian bonds to date. "I think it's a case of sell the reality of [Italy's membership of the] ERM," he said.

Ms Alison Cottrell, economist at PaineWebber in London, thinks Italian bonds could yet go higher, with low inflation figures and interest rate cuts from the Bank of Italy to come.

But she said the real danger for Italy, and Spain, lies six months from now, when a reviving German economy leads to a stronger D-Mark, putting pressure on interest rates there.

Yesterday, the Italian Treasury said it will sell L8,500bn of medium to long-term paper at its monthly auction. It said it would offer L2,000bn of three-year fixed-rate bonds (BTPs) paying a 7.50 per cent coupon; L2,000bn of five-year 7.75 per cent BTPs; L2,000bn of 10-year 7.75 per cent BTPs; and L2,500bn of seven-year floating-rate certificates (CCTs) paying a first coupon of 3.80 per cent.

In Belgium, there was little impact from the monthly OLO auction. The Belgian Treasury accepted bids for BFr15.7bn worth of bonds, BFr7.6bn for redemption in March 2001, and BFr8.1bn for redemption in March 2007.

Irish bonds drifted higher in steady trade as the market awaited today's UK budget. The benchmark 2006 bond climbed 0.10 to 109.10 to yield 6.59 per cent.

Trading in UK gilts was quiet ahead of the budget. Long gilt futures settled at 111¼, up 7/32.

A similar picture was seen in Japan, ahead of the quarterly *tankan* business activity survey, but on Liffe Japanese government bond futures settled at 124.75, up from 0.10 in Tokyo.

US Treasury prices regained some of the losses of last week as the dollar gained and economic data was friendly to the market.

Near midday, the benchmark 30-year Treasury was 5/16 stronger at 101 1/32 to yield 6.412 per cent, while the two-year note was up 1/32 at 99 25/32, yielding 5.659 per cent.

Trading was expected to be quiet with Treasuries staying in a narrow range for most of the week, which will be interrupted by the Thanksgiving holiday. The market will close early tomorrow and Friday and all day Thursday.

There could be some activity on Wednesday, if there is anything surprising in the figures on gross domestic product or durable goods orders. Economists expect GDP to have risen 1.9 per cent in the third quarter and durable goods orders to have fallen 1 per cent last month.

Denmark taps demand for sterling bond issues

INTERNATIONAL BONDS

By Samer Iskandar

Denmark yesterday took advantage of investor demand for sterling bonds with the issue of £100m of four-year notes.

In a market otherwise showing marked signs of the Christmas slow-down, the bonds were seen as particularly attractive in Japan.

Market players say issuance is slowing down because most borrowers have already fulfilled their 1996 funding requirements.

"But there is still some investor demand in a few sectors, such as sterling bonds and dollar denominated floating rate notes," said one.

Daiwa Europe, the lead manager of the Denmark issue, said the launch was motivated by a large lead order from Japan, although some paper was also sold in the UK, Italy and the Benelux region.

"Sterling bonds look attractive for two reasons", said a Daiwa official. "The strength of the currency on the foreign exchange market is one, the other being that sterling now offers some of the highest yields available."

This yield premium over almost every other OECD market looks particularly generous to Japanese investors, with four-year Japanese government bonds yielding just 1.3 per cent.

An innovative issue launched late last week by Sanctuary, the UK's fourth largest housing association, was priced to yield 75 basis points over gilts maturing in 2021, although this date does not match the bonds' maturity – 65 per cent of the amount is gradually redeemed between 2014 and 2031, when the remaining 35 per cent of the principal is repaid. Hambros, the lead manager, pointed out that the issue was not a securitisation, but will be serviced with income from Sanctuary's property portfolio.

● BRB-Banco de Brasília, the state-owned bank, yesterday signed a $75m euro medium-term note agreement with Paxton Securities, which will act as arranger. The first bonds will be issued in January. Mr Luis Fernando Victor, president of BRB, said its aim was the "implementation of programmes with social and economic objectives for the development of rural and urban productive activities".

● Holders of Hanson's £500m of 10 per cent bonds due 2006 will be asked, at a meeting on December 18, to approve a resolution authorising early redemption of the issue. Hanson is offering to redeem the bonds at a price representing a yield premium of 45 basis points over the 7¾ gilts due 2006. Hanson said the buy-back was "part of the final stages of [its] demerger".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Sungei Way Holdings(a)§	100	1.25	100.00	Dec 2001	1.25	-	Jardine Fleming
Lehman Brothers Holdings‡	100	(b.)	100.10	Dec 1997	0.10	-	Lehman Brothers Intl
Orient Semiconductor(c.)§	70	1.50	100.00	Dec 2003	2.50	-	Bankers Trust Intl
Banco America do Sul	55	9.25#	99.923R	Dec 1999	0.75R	+360(6%-99)	Crédit Lyonnais
D-MARKS							
Rheinhyp Finance	500	6.00	99.01R	Dec 2006	0.325R	+31(6%Apr06)	Bayerische Vereinsbank
Hokkaido Electric Power	300	5.00	99.01R	Dec 2001	0.25R	+20(6%Sep01)	IBJ/Yamaichi Bank
YEN							
Australian Wheat Board(d)*	20bn	5.20#	100.00	Jun 1999	1.80	-	Wako Intl(Europe)
STERLING							
Kingdom of Denmark	100	7.25	100.10R	Dec 2000	0.225R	+55(6%Dec00)	Daiwa Europe
FRENCH FRANCS							
Belenus Securities(e)‡	1.8bn	-	-	Nov 2014	-	-	Lehman Brothers Intl
DANISH KRONER							
Statkraft	400	6.25	101.42	Dec 2003	1.875	-	Den Danske Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. §Convertible. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Conversion price: M$16.20. FX: M$2.524/US$. Redemption at maturity: 130.17%. Callable from 5/12/99, subject to 135% hurdle, at accreted value. b) 1-mth Libor +12bp. c) Conversion price: NT$45.65. FX: NT$27.492/US$. Downward revision clause on 28/12/98 & 99, max 80%. Callable from 28/12/99, subject to 140% hurdle, at accreting value. Puttable on 28/12/01 at 135.37%. Greenshoe: $10m. d) Redeemed in A$. e) 8-tranche securitisation of French commercial mortgage loans. Originator: UIC-Sofal. f) Long 1st coupon.

CAPITAL MARKETS NEWS DIGEST

MTRC wins fine terms on loan

Hong Kong's Mass Transit Railway Corporation, one of the territory's leading borrowers, yesterday launched a HK$3.5bn syndicated loan, the corporation's sole significant fund-raising exercise for the year. The revolving facility will have a five-year life, allowing the MTRC to draw-down money throughout that period. The interest margin will be set at 0.365 per cent a year over the Hong Kong interbank offered rate (Hibor), finer than the rate achieved for last year's HK$5bn revolving loan facility, which had a tenor of seven years.

That loan, raised in July last year following the signing of the financial support agreements for Hong Kong's new airport, carried an interest rate of 0.5 per cent over Hibor for the first three years and 0.5625 per cent thereafter. Since then, in the first half of this year, the MTRC moved into the black for the first time in its 17-year history, helped by lower interest charges.

The MTRC, which has an A+ rating from Standard & Poor's for long-term domestic debt, said the current fund-raising coincided with favourable market conditions. The funds will be used for general corporate requirements, including refinancing maturing debt and capital expenditure. Chase Manhattan Asia, Hang Seng Finance and Industrial Bank of Japan, Hong Kong branch, have been appointed joint book-runners, and 12 banks have formed the arranger/underwriter group.

Louise Lucas, Hong Kong

Advisers discuss Chinaclear

China yesterday took another step forward in its aspirations to join the ranks of established international capital markets, when foreign advisers met in Beijing to discuss progress made on the Chinaclear project.

Cedel, the Luxembourg-based clearing bank, heads the consultative group, which comprises the Nasdaq Stock Market and Skadden, Arps, Slate, Meagher and Flom, a New York-based law firm. Cedel said the aim of the working group was to develop a legal framework that will help China's ministry of finance to "develop new rules and regulations, to improve the efficiency, safety and integrity of the market".

Samer Iskandar, London

IBCA rates Egyptian bank

IBCA, the European Credit rating agency, has assigned an Individual rating of B/C to Commercial International Bank, the sixth largest Egyptian bank ranked by total assets.

CIB was set up in 1975 through a joint partnership between Chase Manhattan and the state-controlled National Bank of Egypt, the country's largest bank. However, Chase sold its holding to NBE in 1987 and the latter has since reduced its stake to around 20 per cent, mainly through an initial public offering in 1993 and a global depositary receipt issue in July 1996. Employees of both CIB and NBE have built up a 30 per cent stake.

Sean Evers, Cairo

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.5670	−0.210	7.09	7.17	7.59
Austria		6.875	07/06	99.6700	+0.040	5.92	5.93	5.94
Belgium		7.000	05/06	107.0900	−0.060	6.00	5.99	6.07
Canada *		7.000	12/06	106.6200	+0.070	6.11	6.15	6.63
Denmark		8.000	03/06	106.2000	−0.040	6.79	6.77	6.81
France	BTAN	5.500	10/01	102.9212	−0.050	4.84	4.81	4.66
	OAT	6.500	10/06	105.0400	+0.040	5.82	5.82	5.94
Germany Bund		6.250	04/06	103.1100	+0.100	5.81	5.82	5.99
Ireland		8.000	08/06	109.0500	+0.130	6.71	6.76	6.85
Italy		9.500	02/06	112.7400	+0.010	7.57†	7.58	8.15
Japan	No 140	6.600	06/01	121.7441	−0.110	1.62	1.49	1.66
	No 182	3.000	09/05	102.6807	−0.040	2.63	2.56	2.79
Netherlands		8.500	06/06	119.4400	+0.040	5.80	5.78	5.92
Portugal		9.500	02/06	116.2500	+0.130	7.06	7.11	7.57
Spain		8.800	04/06	111.1500	+0.060	7.11	7.28	7.69
Sweden		6.000	02/05	93.6010	+0.530	7.05	7.05	7.15
UK Gilts		8.000	12/00	103-11	+3/32	7.03	7.13	6.71
		7.500	12/06	100-16	+5/32	7.45	7.51	7.41
		9.000	10/08	111-16	+6/32	7.52	7.60	7.54
US Treasury *		6.500	10/06	102-24	+2/32	6.13	6.20	6.55
		6.500	11/26	101-03	+3/32	6.42	6.47	6.64
ECU (French Govt)		7.000	04/06	105.4500	+0.090	6.21	6.19	6.30

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	5.68
Broker loan rate	7	Two month	-	Three year	5.79
Fed.funds	5⅜	Three month	5.15	Five year	5.93
Fed.funds at intervention	-	Six month	5.26	10-year	6.14
		One year	5.42	30-year	6.44

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	127.72	127.84	+0.10	127.88	127.62	60,241	174,033
Mar	127.62	127.72	+0.10	127.74	127.52	2,917	56,763
Jun	126.40	126.50	+0.10	126.40	126.40	2	6,675

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
124	-	-	-	-	0.02	0.20
125	-	-	-	-	0.05	0.35
126	1.84	-	2.22	0.01	0.14	0.65
127	0.83	-	-	0.04	0.34	-
128	0.10	0.46	1.03	0.31	-	1.34

Est. vol. total, Calls 4,640 Puts 14,472. Previous day's open int., Calls 167,880 Puts 199,864.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.13	101.16	+0.02	101.24	100.90	111970	220632
Mar	100.17	100.21	+0.03	100.23	99.98	2935	47108

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10000	0.62	0.90	1.10	1.09	0.41	0.69	0.89	1.84
10050	0.37	0.64	0.84	0.90	0.66	0.93	1.13	2.15
10100	0.20	0.44	0.63	0.74	0.99	1.26	1.42	2.49

Est. vol. total, Calls 5912 Puts 14767. Previous day's open int., Calls 104676 Puts 91603

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	127.85	128.08	+0.15	128.70	127.45	71809	90103
Mar	126.80	127.12	+0.08	127.80	126.70	18342	15449

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12700	2.27	3.04	2.16	2.97
12750	2.02	2.80	2.40	3.23
12800	1.79	2.58	2.67	3.51

Est. vol. total, Calls 1307 Puts 4826. Previous day's open int., Calls 78760 Puts 46564

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.20	111.28	+0.04	111.44	110.92	62,346	66,934
Mar	110.43	110.66	−0.01	110.80	110.43	716	4,726

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-25	111-04	+0-07	111-08	110-20	55812	124084
Mar	110-02	110-15	+0-07	110-16	110-00	15662	26400

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
110	1-12	1-39	1-59	2-29	0-48	1-09	1-29	2-48
111	0-43	1-08	1-26	2-00	1-13	1-42	1-60	3-00
112	0-23	0-48	0-63	1-39	1-57	2-18	2-33	3-39

Est. vol. total, Calls 3257 Puts 1021. Previous day's open int., Calls 27856 Puts 16392

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	95.04	95.16	+0.06	95.16	95.04	258	8,109
Mar	94.54	94.72	+0.06	94.84	94.54	5	446

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	115-09	115-14	+0-04	115-18	115-02	269,917	372,777
Mar	114-30	115-03	+0-04	115-06	114-22	38,296	60,991
Jun	114-18	114-22	+0-02	114-25	114-12	652	10,192

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	124.68	-	-	124.75	124.62	1898	n/a
Mar	123.88	-	-	123.94	123.82	1514	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Nov 25	Day's change %	Fri Nov 22	Accrued interest	xd adj. ytd
1 Up to 5 years (21)	121.17	0.07	121.08	2.29	8.80
2 5-15 years (18)	150.91	0.13	150.73	3.27	8.84
3 Over 15 years (8)	171.52	0.23	171.13	4.66	9.63
4 Irredeemables (6)	193.68	0.29	193.12	1.02	13.47
5 All stocks (53)	145.24	0.13	145.06	3.15	9.64

	Low coupon yield Nov 25	Nov 22	Yr. ago	Medium coupon yield Nov 25	Nov 22	Yr. ago	High coupon yield Nov 25	Nov 22	Yr. ago
5 yrs	7.11	7.13	7.04	7.17	7.18	7.04	7.22	7.23	7.12
15 yrs	7.63	7.65	7.69	7.60	7.62	7.74	7.57	7.61	7.82
20 yrs	7.71	7.73	7.75	7.64	7.67	7.78	7.59	7.66	7.85
Irred.†	7.76	7.78	7.89						

Index-linked	Mon Nov 25	Day's change %	Fri Nov 22	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	203.03	0.08	202.87	0.89	5.26
7 Over 5 years (10)	196.18	0.21	195.77	1.27	4.71
8 All stocks (12)	195.84	0.19	195.45	1.22	4.69

	Inflation 5% Nov 25	Nov 22	Yr. ago	Inflation 10% Nov 25	Nov 22	Yr. ago
Up to 5 yrs	3.14	3.15	2.75	2.45	2.47	1.57
Over 5 yrs	3.49	3.50	3.52	3.28	3.30	3.32

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 25	Nov 22	Nov 21	Nov 20	Nov 19	Yr ago	High*	Low*
Govt. Secs. (UK)	94.74	94.79	94.59	94.25	94.55	98.44	96.34	91.59
Fixed Interest	116.54	116.95	116.76	116.41	116.53	113.90	116.76	110.74

Gilt Edged Activity Indices

	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18
Gilt Edged bargains	92.6	98.0	117.8	118.8	119.9
5-day average	109.4	118.8	119	114.5	113.1

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Treas 13¼pc 1997‡‡		13.11	6.34	101 1/32	−1/32	107⅝	100½
Exch 10½pc 1997		10.40	6.29	100		107	100
Treas Cnv 7pc 1997‡‡		6.98	6.46	100		101	100
Treas 8¾pc 1997‡‡		8.61	6.51	101⅝		107	101⅝
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Treas 7¼pc 2006‡‡		7.60	7.45	101		[illegible]	[illegible]
Treas 8pc 2002-6‡‡		7.75	7.22	103		[illegible]	[illegible]
Treas 11¾pc 2003-7		9.67	7.31	121		[illegible]	[illegible]
Treas 8½pc 2007 ‡‡		7.92	7.47	107		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ABN Amro Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
African Dev Bk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Alberta Province	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian Dev Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Baden-Wuert	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bancomext	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Ned	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bayer Vereinsbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Columbia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Gas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cheung Kong	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ITALY: FINANCE, INDUSTRY AND EXPORTS

A fresh relationship emerges

A new partnership seems to be forming between industry and the state. The dismantling of Iri may concentrate politicians' minds on the legitimate uses of industrial policy in a modernising economy. Andrew Hill examines developments

Benetton factory near Treviso. The level at which the lira might enter the Erm is of immediate concern to some companies Trevor Humphries

It is always dangerous to signal the end of an era in Italy. But when, earlier this month, Mr Carlo Azeglio Ciampi, Italy's treasury minister, called a halt to nearly seven decades of industrial policy exercised through Iri, the state holding company, he seemed to be heralding a significant change in the relationship between the state and industry.

The government, said Mr Ciampi in a statement, "considers that Iri's mission as a public holding of big industrial and service companies operating under state monopoly has come to an end".

The private sector, meanwhile, is undergoing its own shock treatment. Last Sunday's agreement on re-entry of the Italian currency into the European exchange rate mechanism (ERM) underlined that entrepreneurs would have to learn to live with a stronger lira, four years after departure from the ERM ushered in a period of export-driven growth.

For a government bent on bringing its economy into line with Europe, both events were inevitable. Not that anybody expects Iri to disappear overnight. Mr Ciampi's statement was part of a decision to merge two of Iri's largest quoted holdings – Stet, the telecoms group, and its main operating subsidiary Telecom Italia – and give the treasury direct control of the merged company ahead of privatisation next year.

The effect is to delay the long-awaited sell-off once again, and to underline another Italian paradox, that – as one newspaper put it tartly – "in order to privatise, you first have to nationalise the company by giving control to a ministry". Even after asset transfers and privatisations, Iri will still be a significant economic force, with controlling stakes in Alitalia, the troubled airline, RAI, the broadcaster, Finmeccanica, the defence and engineering conglomerate, and Fincantieri, the shipbuilder.

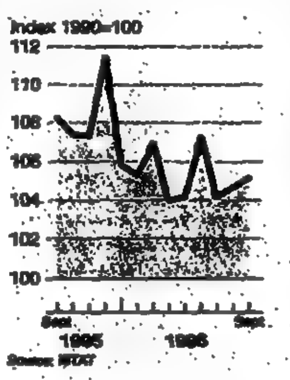
If nothing else, however, the dismantling of Iri may concentrate politicians' minds on the legitimate uses of industrial policy in a modernising economy – beyond state subsidies and murky government-backed rescue plans. Optimists believe it may even prompt the founding families who run many of Italy's dynamic private-sector enterprises to think about splitting ownership and management of their small and medium-sized companies in the drive to confront aggressive international competition.

Until recently, Italy's industry ministry has literally been in the shadow of Iri: until 1990 it was known as the ministry of state holdings and its offices are next door to Iri's headquarters on Rome's Via Veneto.

The decline of the state sector poses new challenges, according to Mr Pier Luigi Bersani, industry minister since the centre-left's election victory last spring.

"We have to leave behind the era of direct intervention

Industrial production



Source: ISTAT

and take the attitude that government will still say its piece – but in a new relationship with industry, through regulation, by participating in international meetings and by formulating national policy," he said in an interview earlier this month.

The way the Italian economy looks at the moment, that might not be enough to satisfy the country's industrialists.

Inflation is coming down, exchange rate volatility has calmed, and the Bank of Italy did finally cut interest rates this autumn. But business and consumer confidence is still afflicted by uncertainty about the economic and political future.

Consumer demand in Italy is flat or falling. Car registrations in the 10 months to end-October have risen only 0.6 per cent compared with the same period of 1995, and car dealers and manufacturers are again calling for government-led incentives to encourage a recovery in demand. The latest industrial production statistics showed a decline of 2.9 per cent in September, compared with the same month of 1995.

The country's trade surplus – according to Mr Augusto Fantozzi, the minister for foreign trade – should still reach a record L60,000bn-L70,000bn this year, against L45,000bn in 1995, when exports were helped by a much weaker lira. But analysts point out that margins are being squeezed, and the main reason for the growing surplus is that the slump in consumer demand means imports are declining faster than exports.

The central ERM rate of L990 to the D-Mark is stronger than Italian industry wanted.

The strengthening of the lira is the first real test of the export-backed growth of previous years. Mr Bersani is confident that small and medium-sized companies are tenacious enough to consolidate their international position now that times are harder.

"Price helps to give industry opportunities and in this sense, Italian industry has a great capacity to take advantage of such situations," he says.

"But once our small and medium-sized enterprises have gone into foreign countries it isn't easy to dislodge them... They succeed in sticking there because they have, for example, flexibility in production capacity."

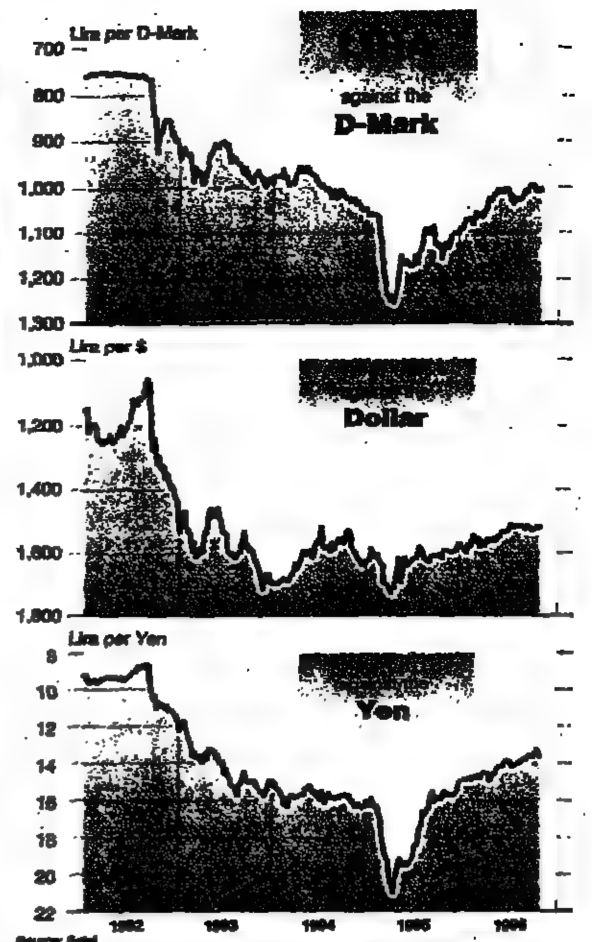
According to some analysts, however, fast-moving small companies are still let down by a less-than-dynamic banking sector, and a reluctance to seek risk capital for the financing of growth.

Mr Luciano Balbo, chairman of B&S Electra, an Italian venture capital group, points out that Italy has become strong in certain areas, such as machine tools and textiles, thanks to family-owned companies. But he warns:

"Almost none of these companies has become large, and too often they end in collapse. These days, in mature sectors, you can't grow simply through internal growth."

To modernise the Italian financial system, many look to privatisation of the country's banks – many of which are still owned by centuries-old public-sector "foundations" – the growth of home-grown pension funds and other institutional investors, and a consequent increase in the importance and status of the Italian stock exchange.

"At the moment, smaller businesses don't have many alternatives to the banking system," says Mr Giorgio Fossa, elected chairman of Confindustria, the employers' federation, in May. "Some time in the future, we should become like the US, where 80 per cent of new capital comes from institutional investors. If there was a real financial market, we would also manage to separate families from management."



Source: Datastream

Unfortunately, deep reform of the financial system is still easier said than done. Foundations are the original vested interests in most Italian cities, and difficult to dislodge from their privileged positions. At the same time, the banking system is cracking under the weight of bad loans – particularly those built up in the poor south of the peninsula – which between 1993 and 1995 increased at an annual rate of 26 per cent. It is not the best moment to be considering a launch onto the high seas of the private sector.

In a speech at the end of October, Mr Ciampi outlined new draft legislation, which would attempt to loosen the foundations' hold over their banking subsidiaries and encourage them to invest elsewhere, partly by removing some of the fiscal deterrents to such flotations. "The results [of previous legislation] have not been sufficient," said the minister. But many critics of Mr Ciampi's approach believe the new legislation will still be too soft, and that the foundations should be obliged to sell majority stakes in their banks.

In the end, coercion may achieve less than the cold realities of the modern market. The decline of Iri is a further indication that the other easy alternatives for financing big business – direct or indirect transfers from the state – are no longer viable. Meanwhile, the reduction in interest rates and the narrowing gap between the yield on Italian government bonds and German or British equivalents is making equity investment more attractive for the average Italian saver, until now a devotee of investment in government bonds.

The theory is that, under such circumstances, a new generation of family-based entrepreneurs may turn to professional management and the stock market to realise their 21st century ambitions, rather than to banks or the government. But as the slipping calendar for privatisation of Stet suggests, it might be best not to hold your breath.

■ **The banking sector:** by David Lane

'Frankenstein' law failed to deliver

Italy's banks must address a daunting list of crucial adjustments

Frankness is a rare quality in politicians. But in describing the July 1990 law that bears his name as a legislative Frankenstein, Giuliano Amato, former treasury minister and prime minister and now head of Italy's competition watchdog, gets near the truth.

The Amato Law aimed to revolutionise the banking system by turning public-sector banks into joint stock corporations, and then merging and privatising them. Under the law, public sector banks were given tax breaks to spin off their banking operations into joint stock corporations (*societa per azioni* – SpA), the equity remaining with foundations controlled by local governments.

While public-sector public law credit institutions – a category including San Paolo di Torino and Monte dei Paschi di Siena – and *casse di risparmio* savings banks – a category including Milan's Cariplo – have been transformed into "SpA", the much-sought mergers and privatisations have not happened.

There were 163 "SpA" at the end of last year, against 187 at the end 1991, the year when the law started to be applied. The number of *banche popolari* (generally small and medium-sized people's banks) fell from 103 to 96 and the number of co-operative credit banks (usually one or two-branch affairs) from 710 to 619.

Excluding the branches of foreign banks, refinancing institutions and medium- and long-term banks, the number of Italian banks dropped from 1,000 to 878 between 1991 and 1995.

The Bank of Italy reports that there were 64 concentration operations last year, of which 28 involved co-operative credit banks. Most were acquisitions: there were just 10 mergers.

The central bank notes that some well-performing medium-sized banks in central and northern Italy have been the most active in growing through concentration operations. Italian banking remains fragmented overall, however.

No big merger operation has been undertaken in the past five years since those between Cassa di Risparmio di Roma, Banco di Santo Spirito and Banco di Roma (to form Banca di Roma) and between Nuovo Banco Ambrosiano and Banca Cattolica del Veneto, forming Banco Ambrosiano Veneto.

The Credito Italiano/Credito Romagnolo operation two years ago did not lead to merger. Milan's stock market quotes Rolo Banca 1473 as well as Credito Italiano.

Figures published by Associazione Bancaria Italiana (the Italian banking association, ABI) and IBCA in their European banking report in July reveal a level of fragmentation matched only by Germany.

The three largest banks together control just 20 per cent of the market in Italy, against 54 per cent in Britain and 74 per cent in the Netherlands, where concentration is greatest.

The 10 largest banks take 50 per cent, compared with 85 per cent in Britain and 93 per cent in the Netherlands.

Currently being salvaged, Banco di Napoli will keep its identity even if it is acquired by a large Italian bank, thereby nullifying the benefits that could result from merger. Apart from providing a sop to southern interests, that is the Italian pattern.

Several banks whose shares are listed on the Milan board are controlled by other banks: Banca Nazionale dell'Agricoltura by Banca di Roma; Banca Toscana by Monte dei Paschi di Siena; and Banca di Chiavari and Banco di Legnano by Banca Commerciale Italiana. Little wonder that the authorities are disappointed about progress towards concentration.

Scarce achievement on privatisation owes much to Mr Amato's law. The "monster" foundations have kept control of the banks, in spite of efforts by successive governments.

Two years ago, Mr Lamberto Dini, the treasury minister, issued a directive allowing foundations five years to diversify and dis-invest from banking. The results are risible. Now Mr Carlo Azeglio Ciampi, who took over from Mr Dini as treasury minister, is attempting to move matters along.

When, as governor, Mr Ciampi addressed the Bank of Italy's annual meeting in May 1989, he noted that 65 per cent of Italy's banking system was in the public sector. Seven years later and after legislation aimed at promoting privatisation, ABI describes how little has been achieved.

"The only European banking market where large banks are mainly under public control is Italy, 11 of 17 banks considered belonging directly or indirectly to public bodies," says the ABI. This massive presence of public-sector banks is confirmed by total asset figures.

One reason why privatisation has not happened is politics: national and local politicians can keep their hands on the banking levers through the foundations.

Being involved with banks is more rewarding than running portfolios of financial investments (which would probably be done by professional investment managers) and distributing the income from them.

Another reason is that foundations' book values of their bank shares are higher than market values. A third reason is adverse stock market conditions.

San Paolo di Torino has not followed up the initial public offering (IPO) of 20 per cent of equity made in March 1992 with a secondary operation. Cariplo was forced to abort an IPO in which it hoped to offer 22 per cent of its equity in July 1994.

In generally unfavourable stock market conditions, bank shares have been especially unpopular.

This is not surprising given banks' dismal profit records and passed or reduced dividends.

In their banking report, ABI and IBCA note that Italian banks' return on equity has fallen from 11 per cent in the period 1987-1989 to 2 per cent over 1993-1995, considerably lower than most leading European banking markets and even below France.

Self-financing was negative in 1994 and only just positive last year.

The biggest factor underlying the profitability gap between Italian banking and the rest of Europe is taxation which explains 39 per cent of the difference: profits incur 56 per cent tax against 30 per cent in Britain and the Netherlands.

Higher staff costs and poorer risk management each account for about 22 per cent of the difference between Italian and European performance.

Recent proposals allowing banks to lay off staff on the state scheme ought to provide some relief: as much as a quarter of bank staff, 333,000 at the end of last year, are surplus to requirements. But ABI emphasises that the tax burden must to be reduced in order for the Italian banking system to close the gap with the rest of Europe.

There are important implications for the country's banking system in trends in the corporate sector.

Giovanni Palladino, head of finance at the industrialist's federation Confindustria, says that large and medium-sized companies are becoming increasingly independent of bank credit. "Banks must refocus their services to help companies gain access to financial markets and use innovative financial instruments," he says.

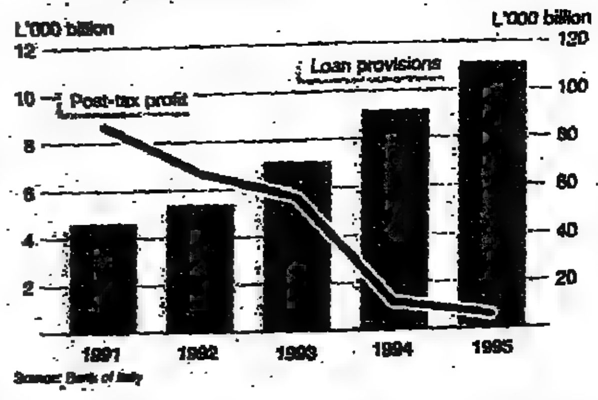
Concentration, privatisation, and efficiency and profit improvement are priorities. Satisfying the changing market of corporate business is just one more item in the daunting list of crucial adjustments that Italy's banks must now make quickly.

The first half of the 1990s was a period of missed opportunity. The present challenge is awesome.


Lamberto Dini: gave foundations five years to diversify and disinvest


Giuliano Amato: his legislation aimed to revolutionise the system


Carlo Azeglio Ciampi: attempting to move matters along



■ **Exports and currencies:** by Robert Graham

Unique cycle is over

ERM re-entry signals an end to the era of competitive devaluation

For the fourth successive year Italy looks set to enjoy a record trade surplus. On present projections, based on eight months' figures, the surplus should be about L60,000bn.

At current prices this will be more than three times the level back in 1993, the first year which saw the benefits of a sharply devalued lira. However, circumstances have changed radically since the lira was left to float free after being forced from the European Exchange Rate Mechanism (ERM) during the September 1992 currency crisis.

The era of a competitively devalued lira – so unpopular with Italy's European Union partners – is ending. Last Sunday's decision to bring the lira back inside the ERM was an essential step on the path towards taking part in the single European currency, one objective of Mr Romano Prodi's centre-left government.

There are many hurdles along this route, the most serious being the country's ability to comply with the convergence criteria on the rate of inflation, the size of the budget deficit and the level of Italy's debt stock.

Nevertheless, the objective of monetary union is backed by all the main political parties as well as by trades unions and the business community. With 56 per cent of all trade within the EU, a lot is at stake in once again seeking to discipline the lira to fixed bands.

The government always hoped to have completed the re-entry negotiations by the end of November, once the 1997 budget passed through the chamber of deputies. The objective was achieved only after hard bargaining with its EU partners over an acceptable parity for the Italian currency, eventually fixed at L990 to the D-Mark.

The lira has gained 10 per cent this year as the country's economic fundamentals have improved and has been hovering around L1,000 against the D-Mark since the summer. It would have strengthened more had not the Bank of Italy intervened heavily on occasions to prevent further appreciation. This was an indication that the Italian authorities were seeking re-entry around this central parity.

In the run-up to the decision, Confindustria, the industrialists confederation, said L1,000 against the D-Mark was the maximum acceptable. Exporters – and notably big groups such as Fiat – would have preferred to fix the lira at the L1,050 level. Few have forgotten the difficulties they faced in 1992 when the Bank of Italy persisted until the last with a strong lira policy.

A recent study by Milan's Bocconi University showed that on next year's macro-economic projections, operating margins would be little affected with the lira at L1,050. At a parity of L950, however, the negative impact would be significant. Margins in the white goods industry, for instance, would be down almost 4 per cent; in clothing by nearly 3 per cent and machinery by more than 2 per cent.

France and Germany account for 54 per cent of Italy's exports to the EU and since 1993 have felt the most vulnerable to the impact of a cheap lira. However, the French government has been the more vocal in attacking the competitive advantage enjoyed by Italian companies, and, ahead of Sunday's decision, was the toughest in insisting on a parity around or below L950.

Germany, conscious that it would have to bear the cost of defending an overvalued lira, seemed prepared to accept a more realistic parity. In any event, bridging the gap between the interests of exporters and accommodating the French and Germans has proved no easy task for the government.

While devaluation was undoubtedly the catalyst for swinging the trade balance from deficit to surplus in 1993, at least four other elements have contributed to the extraordinary export performance:

- Over the past four years, the rhythm of domestic demand has slowed as public spending has been cut in real terms and consumer spending has been depressed;
- As a result of the 1993 wage pact between the government, unions and employes, pay has been de-indexed and linked to productivity. This has led for the first time in three decades to wages increasing below the rate of inflation;
- Fear of job losses has led to an unprecedented stability on the shop floor;
- Inflation, despite some blips, has been falling and there has been relatively little imported inflation from increased raw material costs.

However, the cycle of this unique combination of circumstances is over. Last year was the high point, when Italy's trade surplus soared to L44,000bn from L24,000bn. Not only was this when the lira reached its weakest point (almost L1,200 against the D-Mark), but also companies benefited from special tax privileges in the so-called Tremonti Law.

This law, formulated by the Berlusconi government in the 1995 budget, allowed companies big tax breaks for re-investing profits. This encouraged expansion and was so popular that the Dini government was obliged to prolong its application into part of this year.

The effects of the Tremonti Law have now been exhausted. Added to this, Italy's main export markets in the EU are performing poorly.

In the first seven months, overall exports grew 3.8 per cent compared to 25 per cent during the same period the previous year.

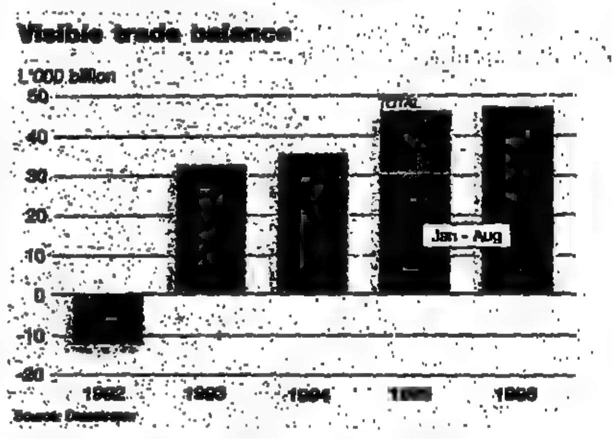
If the August figures are included, average export growth had dropped even lower, to 2.4 per cent, while imports were down 2.1 per cent. In Germany, which accounts for 17 per cent of Italian exports, sales were down by 1.2 per cent.

Another important change is a rise this year in production costs and a potentially inflationary wage settlement which would permit employees in key sectors to recoup a large part of earnings lost through inflation since 1994.

In Confindustria's latest economic bulletin, labour costs were up 7.3 per cent this year and it estimated that wage costs could increase 13 per cent in the period 1996-98 if current union claims were met in full. Also on the horizon is the impact of more costly imported energy. Compared to the onset of last winter, fuel prices are well up.

Most businesses have built up enough fat to allow them to reduce their margins and ride out a difficult 1997. But next year will be a testing time, especially with the lira's central ERM parity below L1,000.

Much attention will focus on businesses in the north-east which has been regarded as a "miracle" growth area since the start of the nineties. Critics have argued that its small companies, operating in niche markets, have prospered almost exclusively on the back of a cheap lira.



■ **The stock exchange:** by Andrew Hill

Time to solve problems

Efforts to improve the market's international image have been undermined

Italy's stock exchange authorities have long worried about how to make their market more liquid, improve transparency and overcome a marked reluctance on the part of Italy's dynamic family-owned small and medium-sized companies to tap the stock market for funding.

Now they face another challenge which makes finding a solution to these perennial difficulties even more pressing: it is called Eurosim; the Italian law which implements the European Union's investment services directive.

The Eurosim replaces the old Sim law – named after the type of local securities houses (*Società di Intermediazione Mobiliare*) which it set up. The Sim law provided a measure of protection for local intermediaries and was ruled illegal by the European Court of Justice earlier this year for discriminating against foreign banks and brokers.

The investment services directive, by contrast, opens the way to head-to-head competition between European stock exchanges and intermediaries. Brokers can now trade by remote links on the same terms as local Sims.

The floors of Italy's 10 stock exchanges – merged under one Milan-based stock exchange council – are deserted and the battle is on to attract computerised dealers from around Europe. Eurosim will also transform the old stock exchange into a self-regulating joint stock company, owned by the intermediaries, including banks, cleared by the new laws to trade directly on the equity markets.

Long-established brokers are worried that they may be crushed by the banks. But Mr Franco Cesarini, head of the Italian stock exchange council since March and chairman of Banca Popolare di Milano, one of Italy's biggest banks, says there will be a role for both types of intermediary, and the entry of the banks will benefit all users of the market.

"As far as the retail market is concerned, the banks are an extremely important channel for savings, but the banks are above all important for the way in which their contacts with companies can generate new applications [for listing] and new quoted stocks," he said in a recent interview. This goes to the heart of the Italian stock exchange's problem. It is small by comparison with the Group of Seven-sized economy; still overweight in financial and holding companies, and clogged by illiquid stocks.


Cesarini: hopes Milan will be more efficient and user-friendly


Fazio: attacked families which dominate leading companies

The Italian government's slow-moving privatisation programme and incentives for small and medium-sized companies to float on the stock exchange, have reinforced the *borsa* in the past two years.

In 1995, 14 new companies were admitted to the *borsa* and this year 12 new stocks have been listed (including Mediolanum, the insurance and financial services group, and Mediaset, the media company, both controlled by Mr Silvio Berlusconi, former prime minister). At least four others are expected to float before the end of the year.

That is still small beer, however, compared with the estimated pool of 1,500 unquoted manufacturing companies which fulfil the minimum requirements for a listing. Added to which, while the stock exchange authorities have pushed ahead with modernisation, the principles of good corporate governance are still a mystery for many of Italy's larger quoted companies.

Within the past year, scandals at Gemina – the investment company controlled by some of Italy's best-known corporate names – and a rash of ill-explained problems at Olivetti, the information technology group, have undermined efforts to project a new, more transparent, image for the Italian market internationally.

In a speech earlier this month, Mr Antonio Fazio, governor of the Bank of Italy, strongly criticised those families which dominate the ownership of quoted companies for mistreating minority shareholders.

He also attacked other entrepreneurs for not even daring to float their family companies because they were afraid of losing control over their companies or of having to meet new demands for transparency.

If incentives for flotation are not extended when they expire at the end of 1997, even the current trickle of interest in the *borsa* may dry up, say some analysts.

They also point out that many of those families which decide to list their companies sell only small minority stakes and show no great enthusiasm to use the market to fund further expansion.

"I don't think in Italy we need a thousand new quoted companies, but a hundred more really good ones," says Mr Luciano Balbo, chairman of B&S Electra, a Milan-based venture capital company part-owned by Electra Fleming.


Milan's stock exchange before computerised trading: the floors of Italy's 10 stock exchanges are now deserted

Mr Cesarini's hope is that Milan will be able to fight off competition by becoming even more efficient and user-friendly. In January, for example, the exchange expects to open a computer node in London linking the City directly to the Milan computer trading system.

Eventually, the exchange authorities believe, three divisions of Italian quoted companies will develop: a first tier of between 30 and 50 blue-chip stocks, including the best-known international companies such as Fiat, Pirelli and Generali; a second tier of "domestic" stocks, which would take in many of the attractive newly-quoted medium-sized companies; and a third division of less liquid stocks, which might be traded once or twice a week in a special session.

Meanwhile, the much-discussed plan for a small second market – with less stringent listing requirements than the main market – seems to have been quietly put aside.

"We already have a *borsa* for small and medium-sized companies," says one venture capitalist. "It's the Milan stock exchange." Mr Cesarini and his colleagues hope that, in the face of international competition, they can win themselves a more exalted reputation.

INTERVIEW Giorgio Fossa, chairman of Confindustria

Obliged to tackle politics

One of the most persistent criticisms levelled against Confindustria, the industrialists' confederation, is that it has defended the interests of big business at the expense of small companies.

In good measure, Mr Giorgio Fossa, who took over the chairmanship of Confindustria in May, owed his election to a feeling among members that this imbalance needed addressing.

This was even the case of Fiat, Italy's largest private group, which openly backed Mr Fossa's candidature.

For almost a decade he has been championing small businesses inside Confindustria. "Small- and medium-sized companies represent over 90 per cent of the membership," he says.

"Governments always talk about doing something for them during the elections, then they are quietly forgotten."

He insists that the model of the small family company is far from being outmoded. With flexible structures, mostly non-unionised labour and innovative dynamism, Mr Fossa regards the family concern as still the backbone of the economy.

"Foreigners do not come to Italy to study our government structures, or our privatisation but they do come to study the success of small and medium businesses."

Mr Fossa, 42, is the third generation of a Varese industrial family active in specialised engineering. The business, Silvio Fossa, employs 70 people and designs, produces and assembles various types of cylinders.

Despite his desire to focus on the problems of small businesses – from labour costs, to scarce credit and excessive state bureaucracy – he has been obliged to field more political problems from the outset.

Confindustria is still playing a bigger political role than he believes it should, because of the vacuum created by a weak government and divided political parties.

He has to represent industrialists at a time when domestic demand has not looked so bleak for more than two decades.

In an interview before Sunday's decision on entry to the Exchange Rate Mechanism (ERM), he was adamant that the lira should not re-enter the ERM at anything stronger than L1,000 against the D-Mark and he would have preferred it closer to L1,050. The central rate agreed on Sunday was L990.

Secondly, he has found himself weighing in with a forceful Confindustria view on the 1997 budget, the government's slowness to privatise and the lack of a clear political will to introduce more flexible working practices.

Confindustria is concerned that the centre-left government is storing up problems by failing to address the issue of how to cut public spending on health and pensions in the 1997 budget.

Mr Fossa himself is worried that growth next year will be weak after near-stagnation this year, with negative consequences for jobs. In this climate, insufficient thought is being given to the cost of employment born by companies.


Fossa: he insists the model of the small family company is far from being outmoded

Employers, he says, cannot be expected to create jobs when the overheads are so high. "People must realise, the more rigid the labour market the less jobs created," he says. Like many employers he now cites the UK example of flexible labour markets as a model.

"In the UK, part-time accounts for 25 per cent of employment; in Italy it is only 6-7 per cent. In the UK, a worker works an average 1,900 hours a year against 1,600 in Italy; and as for non-wage costs these represent only 10 per cent in the UK, compared to nearly 50 per cent in Italy."

More progress on labour flexibility might have been made in negotiations with the unions had not the climate been conditioned by a series of important wage negotiations.

This year, the 1993 agreement between government, employers and unions on wage and work conditions came up for review. The agreement has been crucial for ensuring stability on the shop floor and in holding down wages below inflation. But the 1993 pact envisaged a revision after two years which allowed the unions to recover, at least in part, earnings eroded by inflation.

Engineering workers, traditionally the barometer of wage settlements, are currently locked in a bitter confrontation with employers over a renewal of their national contract. The employers are conceding only a minimal catch-up payment while the unions are insisting upon recouping the bulk of what they have lost through inflation.

At a time of squeezed margins and slack demand, Confindustria says it cannot afford to meet the engineering workers' claim. The Bank of Italy has warned that the settlement risks being inflationary.

There are 14 other big sectorial wage claims in the pipelines. But the outcome of this confrontation will determine the climate of industrial relations for the foreseeable future.

Mr Fossa appears reasonably confident of a solution. The employers' hand could be helped by the stagnant state of domestic demand which might frighten the unions into moderating their claims.

Robert Graham

PROFILE Pier Luigi Bersani, industry minister

Honeymoon period comes to an end

Until September, Pier Luigi Bersani was enjoying a fairly calm honeymoon period as Italy's new industry minister. In the first four months in the job, his public declarations tended to touch on broad economic themes, regulation of energy and telecoms, and forthcoming privatisations; nothing too controversial.

Recently, however, the new minister has had to handle some of the country's most sensitive industrial issues.

The minister's opinion has been sought on events ranging from September's surprise arrest of Mr Lorenzo Necci, the chairman of the state railway – a move which seemed to call into question one of the country's biggest infrastructure investment programmes – to this month's ambitious government plan to merge the state-controlled telecoms companies and end the dominance of Iri, the state holding company, over Italy's industrial economy.

All this has come against a background of sluggish consumption and a strengthening lira, and difficult negotiations – still open at the time of going to press – with engineering workers.

Mr Bersani is only 45 but a veteran of regional politics with the former communist PDS, the largest party in the government coalition. Before Mr Romano Prodi, the prime minister, selected him to run the industry ministry, he was president of Emilia-Romagna, Mr Prodi's home region and the cradle of small and medium-sized manufacturing industry.

Mr Bersani himself claims that in the area around his home town, near Piacenza, "one in every 10 people is an entrepreneur". Under the circumstances, the minister sounds slightly disappointed at industrialists' equivocal reaction to the 1997 budget – a reaction "of light and shade" as he tactfully puts it.


Bersani: '1997 could be a year of extremely substantial reform'

He points out that this government is trying to act on its campaign promises to cut down on unnecessary bureaucracy and encourage the small entrepreneur. "The latest financial manoeuvre is moving in this direction – and if we get it through, 1997 could be a year of extremely substantial reform, benefiting companies," he claims.

Furthermore, he says, the new government's economic policy helped push down inflation, prompt the long-awaited cut in interest rates, and encourage an end to volatile currency movements.

As for the accusation that not enough has been done to tackle structural reform of the pension system, Mr Bersani replies that "opening the question of pensions this year would have been a gesture which created more problems than benefits".

With the lira now at its strongest for nearly two years, Mr Bersani sees the ministry's role as encouraging competitiveness through other means, including deregulation of telecoms and electricity to reduce costs for industry; removal of more bureaucratic obstacles; reform of fiscal policy and the banking system; and encouragement of research and development, particularly in those growing areas such as biotechnology and microelectronics where Italy is weak.

As the list indicates, in many areas the industry minister has to work closely with other cabinet colleagues. Shares in the largest state-controlled companies are either directly owned by the treasury or held through Iri (itself treasury-owned), but the industry ministry sometimes regulates the state monopolies – as is the case, for example, with Enel, the state electricity producer.

The sluggish privatisation programme should eventually eliminate that duplication of responsibility. But many quasi-governmental organisations and regulatory instruments for industrial policy are still shared with or controlled by other ministries.

Mr Bersani hopes government plans to simplify ministerial responsibilities will leave the industry ministry with clear responsibility for industrial promotion – a more appropriate and useful role now that the long era of Italian state subsidies and direct intervention seems to be finally drawing to a close.

Andrew Hill

■ **Aerospace and defence:** by David Lane

Little to laugh about

Uncertainty pervades in a sector suffering weak demand and surplus supply

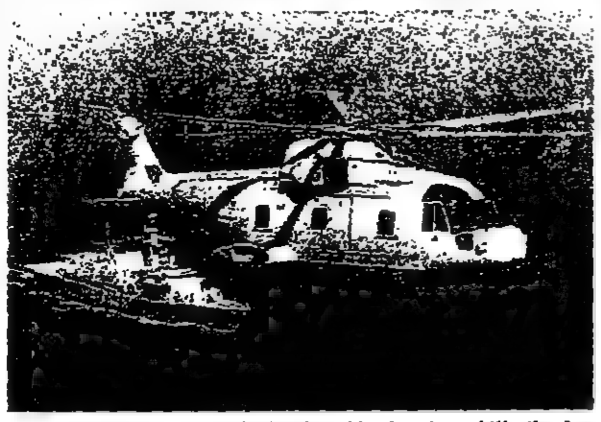
Australia's decision to award a contract to British Aerospace for 40 Hawk military trainer aircraft earlier this month dealt a heavy blow to Italy's aerospace and defence sector. Aermacchi had supplied Australia with the Hawk's predecessor, the Mb226, and expected to follow with the Mb339.

This setback has led some industry insiders to question Aermacchi's viability if it loses forthcoming international battles for trainer orders, in South Africa particularly. Indeed, rationalisation of Italy's aircraft trainer capacity is though imminent and may not await the outcome of these battles..

Italy's leading aerospace and defence company, Finmeccanica, in which the troubled IRI state holding has a 63.4 per cent stake, owns a 25.5 per cent interest in Aermacchi as well as 99.3 per cent of Siai Marchetti which also makes trainer aircraft. Insiders have described the situation as messy and lacking clear policy Uncertainty is a general problem, however, in a sector suffering from weak demand and surplus supply. Several important defence projects have finished in recent years or are running down, while new ones are in early stages. Meanwhile, markets at home and abroad are soft. Improvements on the civil aerospace stage, in which Italy is a bit player rather than a star, are insufficient to compensate.

That the Tornado multi-role combat aircraft, in which Finmeccanica's Alenia is a partner, is no longer a current project is underlined by Italy's leasing of 12 air defence variants from Britain, with a further 12 leased aircraft due for delivery next year. Following reduction of planned numbers by one quarter, Alenia's AMX light tactical fighter programme, a joint effort with Brazil, is now complete.

Few expect the Future Large Aircraft project to get airborne, and Italy's needs for a large military transport aircraft will probably be met by purchases of Lockheed's C130J. Alenia hopes to benefit from an agreement with Lockheed Martin for developing and selling the C27J, a tactical transport based on Italy's elderly G222, however.



The EH101 helicopter, jointly developed by Agusta and Westland

Many of Alenia's military aircraft hopes are pinned on Eurofighter, a partnership with Britain, Germany and Spain. But the project is at risk until there is commitment to tooling for production: the longer the wait, the greater the risk. Moreover, Italy will probably take many fewer than the 130 currently planned.

The situation is equally bleak in the rotary wing business. With the disappearance of military threat in central and eastern Europe, the requirement for Finmeccanica's Agusta A129 army attack helicopter has evaporated, and so have high expectations for export orders.

Although production of the EH101 three-engined naval helicopter, jointly developed by Agusta and Britain's Westland, is under way, the Italian order for 16 has hit bureaucratic barriers and awaits final approval. The NH90 being developed with France and the Netherlands is still far over the horizon.

There are some rays of light in the civil aircraft sector, however, Finmeccanica noting that the upturn in commercial aviation had led to significant improvements in revenues and orders. The ATR commuter aircraft in which Alenia partners France's Aérospatiale has had success, and last year's agreement with British Aerospace to establish Aero International Regional (AIR) provides a way to build on this.

Many of Alenia's military aircraft hopes are pinned on Eurofighter, a partnership with Britain, Germany and Spain

AIR is Italy's only big long-term prospect in civil aircraft. Alenia is outside the Airbus consortium and lacks financial resources to buy a stake. While Alenia works for Boeing and McDonnell Douglas, the US makers are likely to turn increasingly to expanding Far East markets when sub-contracting.

Since Europe's political upheavals in 1989 and the recession of the early 1990s, Italy has done too little to bring its aerospace and defence manufacturing capacity into line with orders. Some may be hoping that better times are round the corner.

Yet with Maastricht criteria to meet, the prospects are for even lower defence spending in Europe. Defence budgets are being trimmed in countries further afield, and competition is fierce.

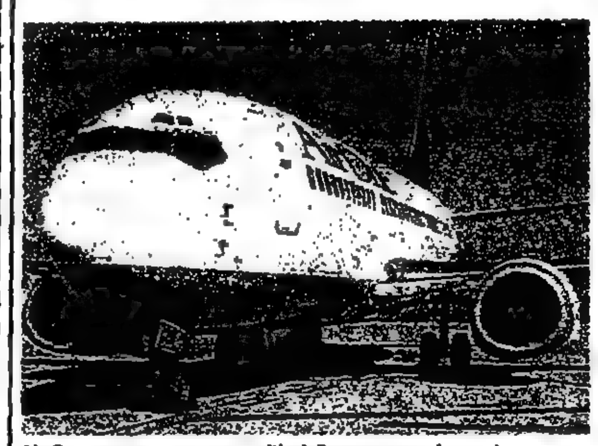
Finmeccanica's aerospace and defence payrolls reflect the failure to tackle the problem of too many workers and not enough work. Between 1994 and 1995, Finmeccanica's aerospace workforce fell by just 2.2 per cent to 21,400, while its defence numbers declined by 3.1 per cent to 9,700. Perhaps as much as a quarter are surplus to requirements.

Meanwhile the accounts at Finmeccanica, where aerospace represented 32 per cent of revenues last year and defence 17 per cent, reflect the situation. The company made just L40bn net profit in 1995 on L12,344bn revenues: net profit was L52bn in 1994 on revenues of L12,117bn. Separate figures are not available for the aerospace and defence businesses, and IRI, Finmeccanica and Alenia decline to talk about results or prospects. The odds are that the two businesses are heavily loss-making.

Although IRI has a firm controlling stake and Italian public-sector banks are other large shareholders, Finmeccanica is a quoted company. But it is not a share that is closely followed: some Milan analysts describe it as "a joke".

There is however, little to laugh about at Finmeccanica or in Italian aerospace and defence.

The airlines



Air One woos passengers with daily papers and sweets

Competition gets fierce

The deregulation of Italy's airlines in 1993, setting internal flights on track to full liberalisation by 1997, has cost the flag carrier Alitalia its privileged monopoly position. Private companies are increasingly making their presence felt on scheduled flights as the deregulation measures are gradually implemented.

There is competition among the various carriers on all national routes but it is fiercest on the Milan-Rome stretch. Alitalia, however, has shown that it is not prepared to be outmanoeuvred by its new rivals and offers prices on its route between Milan's Linate airport and Fiumicino, Rome, between L99,000 and L230,000. It remained easily the biggest operator between Milan and the capital last year, with 1.854m passengers.

Chief among its rivals between Milan and Rome is Air One, owned by Mr Carlo Toto, the Abruzzo businessman, which began operations in November 1995. In the first nine months of 1996, with 18 flights a day in each direction, it carried 345,000 passengers. A one-way Air One ticket between Linate and Fiumicino costs between L60,000 and L180,000.

In the same nine months, Noman, 51 per cent owned by the La Starza family and 49 per cent by Italian Technic, carried 80,000 passengers between Linate and Rome's Ciampino airport, paying between L94,000 and L164,000. The airline, which began business at the end of last year, provides six flights a day in each direction.

The longer-established Meridiana, meanwhile, jointly owned by the Aga Khan, Airfin, Fimpar and Cariplo, the Milan-based savings banks, carried 145,000 passengers in the whole of 1995 between Fiumicino and Milan's Malpensa airport, with three flights a day in each direction. Tickets cost between L161,000 and L230,000. The company is also active on other routes and carried a total of 2.197m passengers last year.

Recently, Alpi Eagles, which is based in the Veneto, in north-east Italy, and is owned by a business consortium including Stefanel, Zanussi and Marzotto, concluded a collaboration deal with Alitalia on some routes – but not between Venice and Rome where annual traffic totals 700,000 passengers and where the two companies remain in competition. Alpi Eagles prices are between 14.5 per cent and 35 per cent cheaper than those of its flag carrier rival.

However, price is not the only yardstick of competition. Although Alitalia has improved its on-board service on the Milan-Rome flights, it is outshone by Air One, for example, which has sought to woo passengers with daily papers and sweets and serves a continental breakfast or afternoon snacks and drinks.

Luisella Carenzio

CURRENCIES AND MONEY

Lira stable after Italy's ERM return

MARKETS REPORT

By Simon Kuper

The lira gained on its first day back in the European exchange rate mechanism since September 1992, closing just above its new central parity rate of L990 against the D-Mark.

The parity rate, set by European Union ministers and central bank officials in late night talks on Sunday, surprised the markets, which had gambled on a parity of L1,000. Traders holding lira that they had bought before the weekend made money on the difference.

The lira's re-entry dominated trading, which was thin because of US holidays later this week. Traders are now more confident than before that Italy will participate in the first stage of European monetary union. Their confidence boosted the dollar and sterling against the D-Mark, which was also hit by weak German inflation figures.

The dollar closed in London 1.7 pfennigs higher at DM1.519, while the pound rose by the same amount to DM2.542. The dollar rose 0.8 cents against the pound to $1.673.

Italy's re-entry also helped send the dollar soaring against the yen. The US currency closed Y1.3 higher at Y111.2.

The French franc recovered somewhat from recent losses against the D-Mark, closing at FFr3.384. This is because Italy's re-entry into the ERM at a stronger rate than expected was seen to reduce pressure on Paris to devalue the franc.

■ Currency strategists said yesterday that they were confident Italy could maintain the lira at around its new central parity for the following months.

But the strategists said Italy may not be able to sustain the lira within a 2.25 per cent fluctuation band against the D-Mark for the next two years. If Italy cannot, its chances of joining EMU at the first stage may recede further. The Maastricht treaty states that countries wishing to participate must maintain a "stable exchange rate" for two years before EMU starts.

Exactly what the criterion means is open to speculation. However, few EU officials believe that a country can fulfil it simply by keeping a currency within the official 15 per cent fluctuation band.

Mr Steven Englander, international economist at Smith Barney in Paris, said: "My mother could keep a currency within a 15 per cent band." The lira's 2.25 per cent band could therefore become a target for speculative attacks of the kind that forced the currency out of the ERM in 1992.

■ The Paris government's *franc fort* policy looks more likely to survive now than it did at times last week. France has long been concerned about the weak lira, which has made Italian exports more competitive relative to its own products.

Now that Italy has entered the ERM at a stronger rate than expected, the threat to the French economy from the lira has diminished. Yesterday a host of French politicians and Bank of France officials, led by Mr Jean Arthuis, finance minister, restated their support for the *franc fort*, a policy criticised last week by politicians including former president Mr Valery Giscard d'Estaing. For the moment the government has won the debate.

■ Mr Kenneth Clarke, the UK chancellor, presents the UK's annual budget today. If he unveils a tax-cutting Budget which puts upward pressure on interest rates, he could further fuel the pound's recent rally.

Sterling has gained about 10 per cent since August this year as the UK economy has picked up speed, accompanied by calls for higher interest rates to head off future inflation. The Bank of England has called for an increase in interest rates, and short sterling futures imply that financial markets anticipate an increase before Christmas.

Cuts in personal income tax aimed at winning votes for the ruling Conservative party ahead of the election expected next spring could further stimulate consumer spending.

Mr Jeremy Hawkins, chief economist at Bank of America in London, said: "There will have to be a significant net increase in taxes to dent speculation that base rate will not be hiked again."

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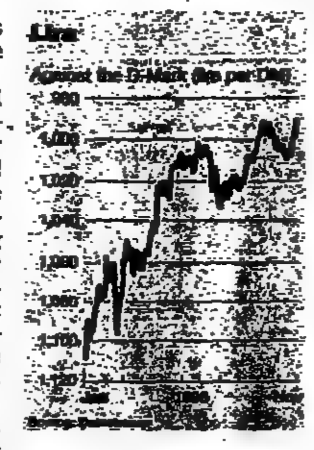
Lira

Against the D-Mark (lira per DM)



■ Pound in New York

Nov 22	—Latest—	— Prev. close —
£ spot	1.6720	1.6765
1 mth	1.6710	1.6755
3 mth	1.6685	1.6730
1 yr	1.6605	1.6601

■ OTHER CURRENCIES

Nov 25	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Poland	4.7315 - 4.7418	2.8295 - 2.8340
Russia	[illegible]	[illegible]
U.A.E.	6.1418 - 6.1458	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.8836	+0.1099	741 - 929	17.9852	17.7622	17.84	2.9	17.7695	2.2	-	-	104.5
Belgium	(BFr)	52.3723	+0.3082	231 - 214	52.5200	51.8980	52.2475	2.9	51.9828	3.0	50.7873	3.0	105.5
Denmark	(DKr)	9.7535	+0.0542	489 - 581	9.7802	9.6922	9.7398	2.5	9.698	2.5	9.5141	2.5	108.9
Finland	(FM)	7.6507	+0.0262	445 - 569	7.6980	7.5940	-	-	-	-	-	-	84.2
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.6914	+0.1191	880 - 989	10.7000	10.5600	10.6767	1.7	10.6314	2.2	10.4364	2.4	104.6
Belgium	(BFr)	31.3100	+0.3395	900 - 300	31.3320	30.8250	31.25	2.3	31.1225	2.4	30.5825	2.3	105.5
Denmark	(DKr)	5.8310	+0.0818	300 - 320	5.8340	5.7600	5.8221	1.8	5.8037	1.9	5.722	1.9	108.6
Finland	(FM)	4.5730	+0.0366	715 - 762	4.5775	4.5298	4.5651	2.3	4.5484	2.4	4.4838	2.4	83.7
[illegible]													

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

EMS EUROPEAN CURRENCY UNIT RATES

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Consortium to buy Port Kembla smelter

By Kenneth Gooding, Mining Correspondent

A Japanese consortium is to buy the Port Kembla copper smelter in New South Wales from RTZ-CRA and will refurbish and expand it at a cost of A$250m (US$203m).

The consortium is led by Furukawa, a big producer of copper semi-fabricated products which has been without a smelter of its own for some years.

The Australian smelter was shut down at the end of 1994 because the consortium that owned it then – led by CRA, the Australian mining group, and including Furukawa – was reluctant to spend the cash required to meet increasingly stringent environmental standards.

Furukawa said yesterday the new investment would improve the smelter's environmental performance and double its annual copper production capacity to 120,000 tonnes. Output is scheduled to start in the second half of 1998.

Furukawa had owned 30 per cent of the Port Kembla smelter but sold out to CRA in June 1995 so the Australian group could close the plant and, possibly, rehabilitate the site. Nissho Iwai of Japan sold its 10 per cent of Port Kembla to CRA at the same time.

CRA, which merged with RTZ of the UK last year, took an after-tax charge of A$115m to reflect the purchase and costs of closure, possible demolition and environmental responsibilities. In the late 1980s the consortium spent A$150m to double capacity at Port Kembla.

Furukawa has for some time been hoping to re-open Port Kembla but has been insisting it must have a majority stake. It said yesterday it would have 50 per cent; Nissho Iwai would also return to the project with 17.5 per cent; Nittetsu Mining would have 20 per cent; and Itochu 10 per cent.

RTZ-CRA in London was unable to say how much the Japanese consortium would pay for the smelter.

Port Kembla, in the southern NSW town of Wollongong, employed 440 before it was closed. Mr Bob Carr, premier of New South Wales, said yesterday that 360 jobs would be created during the construction stage and 270 once the smelter was in operation.

Much of the copper produced by Port Kembla went to Metal Manufacturers, Australia's single biggest copper consumer. Following the shut-down, MM leased the billet casting division of the refinery.

Iraq export move hits oil

MARKETS REPORT

By Peter John and Kenneth Gooding

Oil prices fell yesterday on the news that Iraq may soon be able to export again after agreeing all the conditions of an oil-for-food deal.

The price of Brent crude for January delivery on London's International Petroleum Exchange dropped 19 cents to $22.76 in late afternoon trading. The Iraqi ambassador to the UN predicted oil could start flowing some time in December.

Earlier in the day the price had dipped to $22.66, but picked up, with brokers sceptical that the sale of any oil would go ahead quickly.

Some oil analysts argued that a release of oil before February was unlikely – and that any exports by Iraq are expected to be absorbed by the current tightness in oil supplies and, thus, not hit the underlying price.

Gas oil fell initially with crude, but was trading steady at the lower levels at the close of business. The December contract last traded at $219 a tonne, down $3.75.

On the London Metal Exchange yesterday, traders suggested that action by the London Clearing House was designed to deter speculators causing more problems in a copper market already suffering from a severe shortage of metal for immediate delivery.

The LCH, without explanation, doubled the cash/three-months spread margin from $1,875 to $3,750 a tonne.

"The authorities are clearly worried about a major squeeze developing," said Mr Alan Williamson, analyst at Deutsche Morgan Grenfell.

LME copper stocks are at a 6¼-year low of 93,900 tonnes and are expected to show a further slight fall when the exchange reports stock statistics today.

In late trading yesterday the premium for copper for immediate delivery against three-month metal jumped to $170 a tonne from $145 earlier. Three-month copper reached $2,204 a tonne, up $37 from late on Friday.

Mr Angus MacMillan, research manager at Billiton Metals, part of the Gencor group, suggested that many speculators had gone short (bet on lower copper prices) in the expectation that stocks would now be rising because of increased new production. So far there was no sign of this copper, he said, and the "shorts" had panicked.

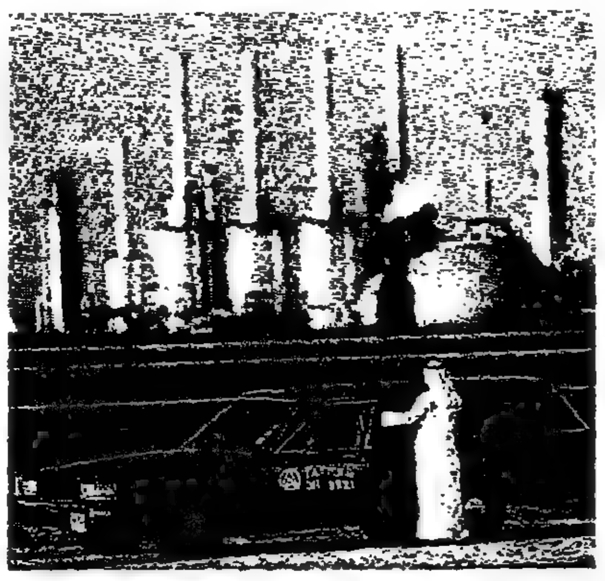
Quotas back on Opec agenda

Oil ministers from the Organisation of Petroleum Exporting Countries who gather in Vienna tomorrow for their winter meeting must be musing about the old adage that sometimes the best course of action is to take no action at all.

Three years ago this month, Opec oil ministers abandoned any pretence that they could react to short-term movements in world oil markets by fine-tuning supplies from the exporters' group. As prices tumbled, they hurriedly departed from the Austrian capital after finally accepting, however grudgingly, that world oil markets had become too broad, too deep and too financially sophisticated for small variations in the Opec production ceiling to make any material difference on short-term prices.

The new Opec "strategy" they adopted was simple: abide by the enlarged production ceiling of 24.52m barrels a day and the individual national quotas set in September 1993, and hope that world demand would soon catch up with Opec's supply.

Since then it has clung to that hope like a shipwrecked sailor to a life-raft. Even when prices sank in early 1994 to less than $13 a barrel, about $10 a barrel lower than now, there was no threat of mutiny in Opec's perennially unruly ranks.



Frank Spooner Pictures

Opec's 'do nothing' strategy may be challenged in Vienna

And nor could there be as long as Saudi Arabia, Opec's dominant member, and other big Gulf Arab producers such as Kuwait and the United Arab Emirates were willing to prop up the policy by sticking to their quotas, while many of their fellow members, more desperate for cash, cheated on theirs.

The patience of the big Gulf Arab producers has paid off this year, with a string of events, most of which were not expected, giving strength to oil prices. These included a smaller than expected rise in non-Opec output, a delay in the resumption of Iraqi crude oil exports and shortages of some refined products in the US and Europe.

Memories of the dark days of November 1993 have been replaced with a warm glow as member states have watched budget deficits shrink as an oil revenue bonanza, estimated at $30bn for the full year, flows into their coffers.

But just as today's tight oil market vindicates Opec's "do nothing" strategy, industry observers wonder whether some members may be tempted back into the bad old ways of trying to fine-tune supplies.

"The market says it wants more oil and it will buy it from anyone willing to produce it," notes Mr Joe Stanislaw at Cambridge Energy Resource Associates in Paris.

Such a move might appeal to Saudi Arabia, Kuwait and the UAE, which alone in the group have the capacity quickly to boost production. They have watched as Opec quota violators increased their combined output by an estimated 1.5m b/d since 1993, while their market share has stayed static.

Some delegates from the three "core" Opec states are determined to raise the quota issue this week, although few observers expect any increase until the status of Iraqi oil exports under the now suspended United Nations oil for food programme is clarified. Kuwait is also keen to discuss ways in which any growth in demand for Opec oil can be shared fairly.

But the removal of short-term financial pressures means any debate is likely to remain theoretical. As one Opec delegate is fond of reminding anyone who questions the policy, the unofficial motto of the group is: "A problem is not a problem until it is a problem."

Robert Corzine

COMMODITIES NEWS DIGEST

Jamaican bauxite refiners to expand

Jamaica's bauxite refiners plan to spend about $500m over the next five years to expand their plants and lift national capacity from 3.4m tonnes a year to just over 5m tonnes. The expansion of the island's four refineries is intended to take advantage of what is expected to be increased demand for alumina, said Mr Carlton Davis, chairman of the Jamaica Bauxite Institute.

Alumina Partners, the island's largest refiner, will expand output from 1.45m tonnes a year to 2m tonnes, while Jamalco will produce 1.5m tonnes a year, almost twice its current output. Two refineries owned by Alcan of Canada will be refurbished to bring output up to their rated cumulative capacity of 1.2m tonnes of alumina a year. The plants will then be expanded to produce 1.7m tonnes a year, Mr Davis said. "The total cost of all this will be about $500m, and the government has told the refiners that it can discuss changes to the fiscal regime to assist this expansion in capacity," he added.

Canute James, Kingston

Hyundai team targets nickel

A consortium led by Hyundai, the Korean industrial group, wants to acquire a 15 per cent stake in the A$900m (US$731m) Murrin Murrin nickel-cobalt project in Western Australia being pursued by Anaconda Nickel, the Australian-listed miner. Other Korean companies involved in the consortium include Halla Group and Tong Yang Global Corporation. They said they would pay around A$105m, including an equity contribution to help finance the project, for a 15 per cent stake.

News of the approach follows a farm-in agreement, announced earlier this month, between Anaconda and Glencore International, the Swiss-based commodity trading firm, over Murrin Murrin. Anaconda has confirmed that Glencore would like its interest set at 40 per cent, which would cost the commodity trader around US$220m. The two companies previously reached an agreement whereby Glencore would take between 30-49 per cent at a cost of US$5.5m for each percentage point.

Nikki Tait, Sydney

Normandy sells Bounty stake

Normandy Mining, Australia's largest gold producer, is selling its 62 per cent interest in the Bounty gold mine in Western Australia to Forrestania Gold, a smaller Perth-based miner, for around A$40m (US$32.4m). Normandy said the deal reflected an "ongoing commitment to focus on core assets". In the year to June, Bounty produced 88,633 ounces of gold, up on the previous year but "well below forecast". The company reported problems with the underground head grade and mine operating costs stood at A$521 an ounce.

The consideration will be a cash payment of A$20m; a 25,000 ounce "structured gold payment", payable in five instalments; an unsecured note convertible into 2m Forrestania shares (or redeemable under certain circumstances); and a two per cent royalty, payable on gross revenue from future nickel production from the tenements.

Nikki Tait

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1485.5-86.5	1507-08
Previous	1507.5-8.5	1526-7
High/low	1484.5	1520/1499
AM Official	1484.5-85	1506-06.5
Kerb close		1513-14
Open int.	240,433	
Total daily turnover	61,421	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1325-30	1356-57
Previous	1340-45	1368-70
High/low		1357/1353
AM Official	1323-26	1353-54
Kerb close		1360-63
Open int.	6,156	
Total daily turnover	17,946	

■ LEAD ($ per tonne)

Close	697-8	704-5
Previous	705-6	711-2
High/low		708/704.5
AM Official	697-8	704.5-5
Kerb close		708.5-9
Open int.	39,737	
Total daily turnover	10,266	

■ NICKEL ($ per tonne)

Close	6845-55	6940-45
Previous	6805-15	6895-905
High/low	6810	6955/6870
AM Official	6805-10	6890-95
Kerb close		6940-50
Open int.	47,089	
Total daily turnover	6,871	

■ TIN ($ per tonne)

Close	6110-15	6115-20
Previous	6130-40	6130-40
High/low		6120/6095
AM Official	6090-95	6090-95
Kerb close		6115-20
Open int.	15,054	
Total daily turnover	4,399	

■ ZINC, special high grade ($ per tonne)

Close	1057-58	1081-82
Previous	1065-6	1077.5-8.5
High/low	1054/1053.5	1082/1078
AM Official	1053.5-54	1077.5-78
Kerb close		1081.5-82
Open int.	84,567	
Total daily turnover	14,638	

■ COPPER, grade A ($ per tonne)

Close	2361-66	2195-96
Previous	2340-45	2205-7
High/low	2325	2194/2157
AM Official	2325-26	2176-80
Kerb close		2204-05
Open int	170,234	
Total daily turnover	67,413	

■ LME AM Official £/$ rate: 1.6615

LME Closing £/$ rate: 1.6720

Spot 1.6702 3 mths: 1.6667 6 mths: 1.6609 9 mths: 1.6556

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	106.30	+1.60	106.30	103.60	620	695
Dec	105.90	+1.35	106.10	102.85	6,500	15,233
Jan	104.60	+1.20	104.50	102.20	263	4,036
Feb	103.40	+1.20	102.20	102.20	28	1,143
Mar	101.95	+1.15	102.00	99.30	2,779	21,517
Apr	100.70	+1.35	–	–	23	658
Total					10,793	82,092

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	374.80-375.20		
Opening	375.30-375.70		
Morning fix	375.10	222.93	478.70
Afternoon fix	375.40	224.24	480.81
Day's High	375.50-375.90		
Day's Low	374.80-375.20		
Previous close	376.70-377.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.91	6 months	3.18
2 months	2.79	12 months	3.31
3 months	2.80		

Silver Fix	p/troy oz.	US cts equiv.
Spot	287.30	483.50
3 months	291.45	489.50
6 months	295.65	495.30
1 year	305.10	507.85

Gold Coins	$ price	£ equiv.
Krugerrand	376-378	225-226
Maple Leaf	380.15-382.55	–
[illegible]	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	374.8	–1.7	–	–	–	–
Dec	374.5	–1.8	378.8	373.4	35,425	50,041
Feb	376.2	–1.9	378.4	376.1	23,107	57,312
Apr	[illegible]	–1.9	379.9	377.3	1,573	15,173
Jun	380.8	–1.9	382.3	379.5	417	13,316
Aug	382.8	–1.8	–	–	126	5,430
Total					61,768	160,[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	382.0	–4.8	385.5	381.0	1,266	17,366
Apr	384.4	–4.8	386.5	384.5	115	8,373
Jul	387.3	–4.8	390.5	390.0	4	991
Oct	390.4	–4.8	395.0	395.0	–	227
Total					1,388	26,957

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	116.05	–2.35	118.10	115.75	498	2,725
Mar	117.60	–2.15	119.50	117.50	535	4,946
Jun	118.70	–2.15	121.00	119.00	2	244
Dec	120.20	–2.15	–	–	6	16
Total					1,041	7,894

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	472.0	–11.2	–	–	–	–
Dec	472.0	–11.5	482.5	469.0	15,080	27,446
Jan	473.7	–11.8	–	–	–	26
Mar	478.6	–11.7	490.0	475.5	9,634	41,079
May	483.1	–11.8	494.5	480.0	301	7,170
Jul	487.5	–11.9	498.0	488.0	424	6,499
Total					25,519	91,011

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	23.57	–0.18	23.95	23.25	39,414	91,378
Feb	23.18	–0.15	23.53	22.90	13,797	43,909
Mar	22.76	–0.15	23.08	22.60	4,893	25,021
Apr	22.36	–0.13	22.56	[illegible]	2,950	19,558
May	22.01	–0.06	22.22	21.93	658	14,831
Jun	21.56	–0.12	21.80	21.35	2,413	28,266
Total					69,075	361,934

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	22.86	–0.17	23.18	22.66	11,937	67,138
Feb	22.29	–0.08	22.57	22.10	7,149	32,892
Mar	21.75	–0.25	22.00	21.66	1,729	28,998
Apr	21.20	–0.24	21.44	21.12	1,998	11,674
May	20.85	–0.06	20.90	20.85	334	6,025
Jun	20.25	–0.21	20.43	20.22	294	11,585
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	72.45	–0.34	74.00	71.80	21,200	16,760
Jan	71.80	–0.44	73.30	71.30	16,683	44,356
Feb	69.70	–0.37	70.95	69.20	5,607	19,292
Mar	66.00	–0.32	66.80	65.40	1,344	11,364
Apr	61.90	–0.22	62.50	61.70	404	7,898
May	59.10	–0.07	59.10	59.00	495	3,805
Total					42,205	127,547

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	219.00	–3.75	222.75	218.00	6,789	23,633
Jan	216.50	–4.00	220.00	215.50	3,802	28,451
Feb	209.25	–3.75	212.50	208.50	766	10,523
Mar	200.75	–3.00	203.50	200.00	426	7,175
Apr	192.00	–3.00	194.25	190.00	179	5,016
May	186.25	–3.75	–	–	–	2,626
Total					13,020	87,549

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	3.495	+0.055	3.500	3.340	23,956	40,462
Feb	3.065	+0.095	3.065	2.925	2,881	19,777
Mar	2.675	+0.050	2.675	2.610	2,891	12,908
Apr	2.305	+0.020	2.310	2.270	1,400	7,222
May	2.215	+0.020	2.215	2.180	687	6,152
Jun	2.175	+0.015	2.175	2.150	158	5,131
Total					40,790	142,681

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	67.70	–0.10	68.50	66.70	15,817	14,006
Jan	64.95	–0.15	65.80	64.15	9,676	26,517
Feb	64.35	–0.10	65.05	63.80	2,967	10,611
Mar	64.35	–0.05	64.80	63.90	945	5,637
Apr	65.70	–0.20	65.70	65.70	991	3,673
May	65.30	–0.20	65.30	65.30	650	1,987
Total					31,238	64,399

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	–0.30	98.75	98.60	63	1,892
Mar	[illegible]	–0.30	98.50	98.00	[illegible]	2,096
May	99.60	–0.40	100.00	99.75	39	2,107
Jul	101.10	–0.40	–	–	–	318
Sep	94.25	–0.25	–	–	–	2
Nov	96.25	–0.25	96.25	96.25	20	522
Total					210	6,496

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	418.75	+5.50	422.50	411.25	5,091	9,436
Mar	392.25	+2.25	401.00	391.00	10,440	28,711
May	365.00	+3.25	371.25	362.75	653	4,101
Jul	343.50	+2.00	345.50	340.00	1,881	13,683
Sep	345.00	–	348.50	345.00	5	381
Dec	358.00	+3.00	358.00	356.50	5	181
Total					18,045	56,773

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	274.75	+2.25	277.50	272.75	22,069	69,294
Mar	274.75	+2.25	278.25	273.75	21,430	117,916
May	278.75	+2.50	282.00	278.00	6,124	47,426
Jul	281.00	+2.00	283.75	279.75	4,013	44,168
Sep	275.00	+1.00	277.50	275.00	117	5,207
Dec	273.25	+0.25	276.00	273.00	971	32,497
Total					54,982	318,318

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	93.50	–	93.75	93.75	22	751
Mar	94.50	–	–	–	–	249
May	96.00	–	–	–	–	122
Sep	92.70	–	–	–	–	1
Nov	94.70	–	–	–	–	127
Total					22	1,260

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	708.00	–1.50	715.00	707.50	27,050	70,004
Mar	705.75	–1.50	713.50	706.25	[illegible]	34,793
May	705.00	–4.00	712.50	704.00	2,742	19,379
Jul	706.00	–5.25	714.00	705.50	3,720	17,268
Aug	703.25	–4.75	710.00	703.00	389	2,439
Sep	687.00	–3.00	691.00	687.00	2	319
Total					41,980	154,231

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	23.31	–0.11	23.51	23.28	6,824	21,869
Jan	23.57	–0.11	23.80	23.55	5,041	23,018
Mar	23.96	–0.05	24.10	23.92	3,555	22,668
May	24.14	–0.11	24.35	24.13	1,235	11,797
Jul	24.35	–0.13	24.60	24.25	585	6,536
Aug	24.35	–0.13	24.55	24.35	27	1,591
Total					17,340	98,510

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	236.9	–0.8	239.8	236.5	7,591	32,422
Jan	227.8	–1.0	230.9	227.6	6,804	22,619
Mar	222.7	–1.1	225.5	222.4	3,169	20,736
May	219.1	–0.9	221.7	219.0	1,967	10,657
Jul	218.8	–1.4	221.4	218.8	1,236	7,603
Aug	218.3	–0.9	220.5	218.3	169	2,099
Total					21,000	96,611

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	56.0	–	–	–	–	–
Apr	65.5	+1.4	66.8	64.8	30	1,260
May	70.5	+1.4	–	–	–	20
Jun	80.4	+1.4	–	–	–	–
Apr	117.0	–	–	–	–	42
Total					30	1,324

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1435	–	1430	1420	78	331
Dec	1408	+23	1410	1374	75	502
Jan	1363	+37	1374	1342	96	1,927
Apr	1380	+25	1390	1370	25	801
Jul	1171	+16	1174	1170	26	277
Oct	1269	–	–	–	–	60
Total					395	3,[illegible]

	Close	Prev
BFI	1442	1447

FUTURES DATA

All futures data supplied by CMS.

Tea

There was good demand this week reports the Tea Brokers association. Landed better liquoring assams sold well at last levels but plainer types were again easier. East Africans continued fully firm to dearer particularly for colouory descriptions. Offshore there was good competition at firm to often dearer rates. Quotations: Landed: Best available 137p/kg. Good: 128p/kg. Good medium: 120p/kg. Medium: 112p/kg. Low medium: 90p nom. The highest price realised this week was 137p/kg for a Sri Lanka.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	891	–2	[illegible]	884	4,363	10,778
Mar	927	+2	928	[illegible]	1,866	47,969
May	945	+2	946	940	798	14,568
Jul	961	+1	961	955	77	12,268
Sep	975	–	977	973	101	7,219
Dec	[illegible]	–	[illegible]	[illegible]	21	5,545
Total					7,260	123,482

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1341	–11	1354	1338	52	479
Mar	1389	[illegible]	[illegible]	1385	3,870	41,754
May	1408	–4	1415	1407	1,370	9,903
Jul	1426	–4	1430	1425	287	7,461
Sep	1444	–2	1460	1444	807	6,689
Dec	1483	–2	–	–	4	854
Total					6,395	78,627

■ COCOA (ICCO) (SDR's/tonne)

Nov 22	Price	Prev. day
Daily	1023.99	1027.59

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1572	+2	1570	1560	300	1,998
Jan	1422	–3	1425	1412	1,322	18,367
Mar	1365	–3	1379	[illegible]	672	9,875
May	1346	–2	[illegible]	1342	270	6,295
Jul	[illegible]	–3	1340	1332	120	837
Sep	1338	–3	–	–	–	372
Total					2,984	36,[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	117.75	–0.50	120.00	117.00	312	1,680
Mar	107.60	–1.90	111.20	106.40	3,543	17,441
May	105.30	–1.85	108.50	104.25	480	5,239
Jul	103.85	–2.40	106.00	103.50	27	1,218
Sep	102.55	–2.45	104.50	102.65	4	869
Dec	101.00	–3.00	102.50	101.00	3	415
Total					4,239	26,946

■ COFFEE (ICO) (US cents/pound)

Nov 22	Price	Prev. day
Comp. daily	95.74	95.36
15 day average	97.62	97.77

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	303.7	+0.7	304.6	301.0	520	15,957
May	304.1	+0.3	304.9	301.0	165	4,898
Aug	304.6	+1.2	303.8	303.8	5	2,318
Oct	[illegible]	+1.6	298.0	297.0	98	1,294
Dec	298.7	–0.6	–	–	–	545
Mar	303.1	+0.9	302.6	302.6	4	373
Total					798	24,986

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.69	+0.04	10.69	10.58	6,134	78,052
May	10.75	+0.03	10.75	10.68	1,214	30,290
Jul	10.67	+0.04	10.68	10.59	526	20,416
Oct	10.70	+0.05	10.70	10.64	280	12,575
Mar	10.68	+0.03	10.69	10.65	269	3,656
May	10.88	+0.03	–	–	13	823
Total					8,449	147,313

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	73.33	–0.31	73.60	73.10	2,266	1,778
Mar	74.90	–0.20	75.30	74.80	8,921	25,073
May	75.96	–0.26	76.30	75.95	1,142	10,004
Jul	76.85	–0.23	77.08	76.70	725	6,946
Oct	77.20	+0.17	77.10	76.90	39	1,273
Dec	77.06	+0.13	77.10	76.76	595	6,816
Total					13,[illegible]	52,[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	94.50	–1.55	96.80	94.60	353	13,165
Mar	98.10	–1.50	99.80	97.70	140	7,186
May	100.95	–1.55	102.55	100.90	25	2,683
Jul	103.45	–1.80	104.75	104.75	11	632
Sep	105.45	–1.80	107.00	107.00	–	251
Nov	105.05	–1.20	–	–	–	53
Total					529	23,982

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 25	Nov 22	month ago	year ago
1863.1	1862.8	1876.5	2186.6

■ CRB Futures (Base: 1967 = 100)

Nov 22	Nov 21	month ago	year ago
244.19	245.68		

■ GSCI Spot (Base: 1970 = 100)

Nov 22	Nov 21	month ago	year ago
218.52	217.08	213.23	186.40

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	66.825	–1.150	68.850	66.775	5,852	27,189
Feb	62.625	–0.700	63.400	62.525	4,341	23,809
Apr	64.225	–0.425	64.650	64.100	2,592	17,891
Jun	62.550	–0.150	62.950	62.300	621	7,521
Aug	62.150	–0.050	62.400	62.000	481	7,246
Oct	64.750	–0.125	65.050	64.650	470	4,942
Total						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	58.675	+0.760	59.825	57.800	3,050	11,201
Feb	76.750	+0.150	77.250	76.250	2,807	11,031
Apr	72.050	+0.525	72.500	71.375	596	4,760
Jun	75.125	+0.375	75.275	74.500	301	4,430
Jul	72.425	+0.425	72.575	71.800	49	1,328
Aug	69.000	+0.300	69.000	68.550	61	812
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	76.700	+1.725	76.800	74.800	1,849	4,284
Mar	76.250	+1.650	76.400	74.600	145	765
May	75.825	+0.825	76.100	74.900	104	513
Jul	77.000	+0.750	77.275	75.250	29	339
Aug	73.225	–0.025	73.225	73.000	1	87
Total						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	44	83	34	59
1550	22	59	64	86
1600	11	41	101	116

■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2150	151	140	47	134
2250	94	99	90	193
2350	54	69	149	260

■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1400	49	49	27	84
1450	28	33	56	118
1500	16	22	94	157

■ COCOA LIFFE	Mar	May	Mar	May
900	44	64	17	19
925	31	48	28	28
950	21	[illegible]	44	41

■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
2200	109	120	25	63
2250	80	96	40	[illegible]
2300	54	76	60	–

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$20.78-0.83w	-0.605
Brent Blend (dated)	$22.87-2.89	-0.86
Brent Blend (Jan)	$22.72-2.74	-0.835
W.T.I.	$23.56-3.57w	-0.575

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$224-226	-1
Gas Oil	$220-222	-5
Heavy Fuel Oil	$118-120	
Naphtha	$225-227	-1
Jet fuel	$249-251	-2
Diesel	$235-247	-4

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	21.00-2.00	+3.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$375.00	-1.85
Silver (per troy oz)♣	481.50c	-5.50
Platinum (per troy oz.)	$381.75	-1.25
Palladium (per troy oz.)	$117.25	-0.25
Copper	110.0c	+3.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.00r	+0.04
Tin (New York)	288.50	
Cattle (live weight)	112.06p	+4.10*
Sheep (live weight)	135.86p	+3.31*
Pigs (live weight)†	88.64p	+2.15*
Lon. day sugar (raw)	$282.90	
Lon. day sugar (wte)	$309.50	+1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	79.75p	-1.75
Rubber (Jan)♥	79.75p	-1.75
Rubber (KL RSS No1)	321.0z	+0.5
Coconut Oil (Phil)§	$775.0y	+5.0
Palm Oil (Malay.)§	555.0x	
Copra (Phil)§	485.0	
Soyabeans (US)	192.0z	+2.0
Cotton Outlook'A' index	76.95	-0.10
Wooltops (64s Super)	393p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. w Malaysian cents/kg. w Jan y Dec v Nov/Dec y Dec/Jan♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,379 head of pigs sold.

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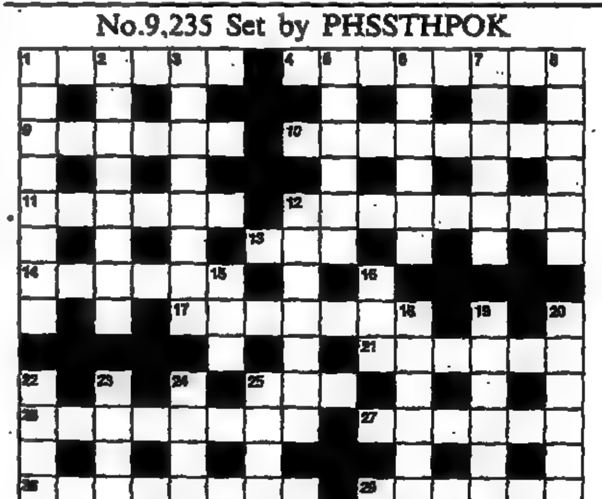
Market: The number of sovereign countries in the World (Spread 10 countries)

Answer tomorrow

CROSSWORD

No.9,235 Set by PHSSTHPOK



ACROSS

1 View half of fight in summer house (6)
4 Lacking work, grouped uneasily in tedious labour (8)
9 Pure container of silver is deficient (6)
10 Avoid work – mother to delay (8)
11 Punches a large number of hooligans (6)
12 Bedlam before 5 down relates to animals (8)
13 Female has a male name (3)
14 Detailed heart above a halo (6)
17 Tribe found in letter seen around (7)
21 Clock for sort of bomb! (6)
25 Go and add one thousand to five (3)
26 Vegetable that is real produced in large numbers (8)
27 Pass over region of chaos (6)
28 Therefore, the French have no identification magnet (8)
29 Gangster said to be the object of censorship (6)
30 Magnus Magnusson, say, causes confusion on my part (8)
31 Perceptive journalist shrieked (6)

DOWN

1 Courageous to tap a fighting bird (8)
2 Fanaticism deprives other lazy arrangement of head-start (8)
3 After interval, I harmonise this voice (8)
5 Debate about an issue (6)
6 Boring exercises? (6)
7 Tie up then gag every part (6)
8 Greet the king colloquially – he used to be well known! (6)
12 Searching for the final letter written by alien before call up (7)
15 Snake beheads insect (3)
16 Water main?(3)
18 Stand still and turn brown in the leg (8)
19 After fracture, meld bone spur (8)
20 Stressed to find account with enormous deposit at first contains little money (8)
22 Misbehaves due to drink after work (4,2)
23 Arrive at shady junction after I repeated about three lines (3,3)
24 Professional not confused quickly (6)
25 Mirror of pride? (6)

Solution to Saturday's prize puzzle on Saturday December 7.

Solution to yesterday's prize puzzle on Monday December 9.

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BERMUDA (REGULATED)(**)

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GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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Old Mutual International (Guernsey) Ltd

PO Box 721, St. Peter Port Guernsey 01481 726726

	Selling Price	Buying Price	+ or -	Yield Gross
£ Stg Managed	£4.488	4.824	—	-
£ European Stockmkt	£5.128	5.512	—	-
£ UK Stockmkt	£5.109	5.495	—	-
£ Sterling Special Mkt	£4.694	5.048	—	-
£ UK Fixed Interest	£4.835	5.198	—	-
£ Stg Money Mkt	£2.970	3.200	—	-
£ Capital Guarantee	£1.719	1.849	—	-
$ Dollar Managed	$3.413	3.670	—	-
$ Intl Stockmkt	$4.386	4.718	—	-
$ US Dollar Bond	$1.402	1.507	—	-
$ Nth Am Stkmkt	$3.813	4.100	—	-
$ Japan Stockmkt	$1.647	1.771	—	-
$ Pacific Stockmkt	$5.442	5.851	—	-

AXA Asset Management

	Selling Price	Buying Price	+ or -	Yield Gross
AXA Valeurs	FFr189.52		—	-
AXA Europe Actions	FFr291.81		—	-
AXA NPI	FFr121.59		—	-

Acciones y Valores de Mexico SA de CV

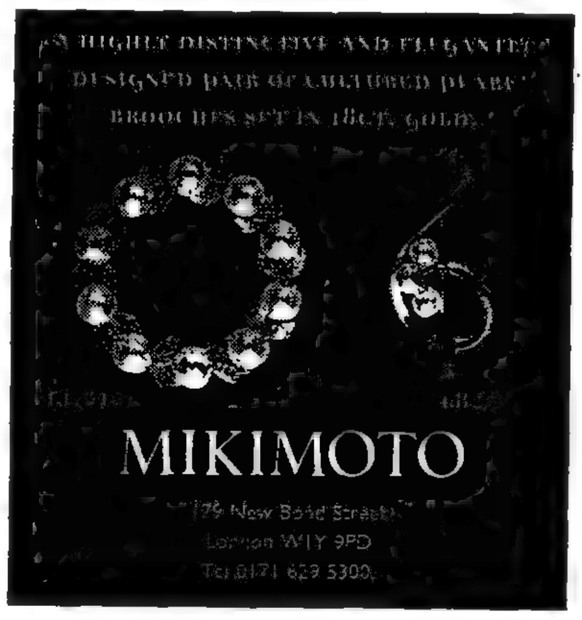
	Selling Price	Buying Price	+ or -	Yield Gross
Accival Nov 22	Pesos61.35		-0.48	0.25

Africa Emerging Markets Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Nov 6	$12.44		—	-

Alliance Capital

Alpha Fund Management Ltd



Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LIFE ASSURANCE

MEDIA

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, FOOD - Cont.

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

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LONDON STOCK EXCHANGE

Budget optimism sees Footsie race higher

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

Having blasted back through the 4,000 level on Friday, the FTSE 100 index took a determined, although ultimately unsuccessful, dash at its all-time record yesterday, focusing on the probable benefits to stock market sentiment from the expected prudent Budget today.

By the close of a rather frantic trading session yesterday, the FTSE 100 index showed a 35.9 gain at 4,054.6, only 18.5 below its record closing level of 4,073.1, reached on October 21. Over the past two sessions, Footsie has risen a massive 100.8 points, or 2.5 per cent. At its best yesterday, the index touched 4,055.3.

And as happened last Friday, London's marketmakers were on the receiving end of more aggressive buying interest from local and overseas investors anxious to top up their portfolios ahead of the Budget.

"There is a very firm feeling to the market at the moment, much of which stems from last week when marketmakers quite deliberately got themselves into a corner, running short books ahead of what was expected to be something of a giveaway Budget," was the view of a leading broker.

"The burst of institutional money flooding into the market caught dealers on the wrong foot and caused a short term bout of panic buying," he said.

The FTSE 250 index saw some strong gains across the second line stocks and finished the session 11.0 firmer at 4,422.3. The 250 reached a session high of 4,426.1 in mid-morning. The SmallCap index, meanwhile, gave a resolute performance, closing 2.3 higher at 2,166.3.

As usual during recent sessions, London was given a fillip from across the Atlantic, where Wall Street extended its recent run of gains. The Dow Jones Industrial Average, up over 53 points on Friday, when the index consolidated its move above 6,400, shot through the 6,500 level shortly after the opening yesterday, posting a 40-points plus gain an hour after London closed.

Dealers do not expect Wall Street to gallop much further this week. The market is expected to quieten down ahead of Thursday's Thanksgiving Day holiday, which sees Wall Street shut on that day and half day trading on Wednesday and Friday.

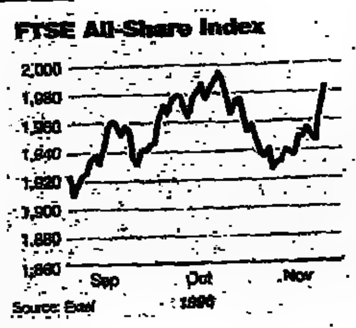
Regarding today's Budget, the general consensus is that the chancellor will cut a penny off income tax, balanced by spending cuts, and will pencil in a much reduced public sector borrowing requirement for next year.

There are fears, however, that there will be increases in taxes on tobacco and alcopops.

Turnover reached 775.7m shares at the 6pm count, with non-FTSE 100 stocks accounting for just over 55 per cent of the total. Customer business on Friday, when the market raced higher in response to the emergence of some heavy buying interest, totalled £1.51bn, well above recent levels.

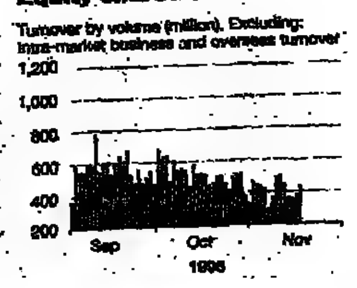
US favourites were well to the fore, with Glaxo Wellcome and SmithKline Beecham strongly supported. The bid stories circulating in the market were said to include Legal & General.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4054.6	+35.9		FT 30	2828.6	+18.1
FTSE 250	4422.3	+11.0		FTSE Non-Fins p/e	18.05	17.96
FTSE 350	2012.2	+15.1		FTSE 100 Fut Dec	4069.0	+37.0
FTSE All-Share	1983.72	+13.95		10 yr Gilt yield	7.42	7.44
FTSE All-Share yield	3.78	3.81		Long gilt/equity yld ratio	2.01	2.01

Best performing sectors

1. Pharmaceuticals +1.8
2. Tobacco +1.7
3. Gas Distribution +1.6
4. Insurance +1.6
5. Life Assurance +1.5

Worst performing sectors

1. Distributors −0.7
2. Building Matls −0.6
3. Water −0.5
4. Oil: Integrated −0.4
5. Electricity −0.4

Iraqi concerns hit oils

Leading oil stocks experienced a sharp downturn in afternoon trading, as news broke that Iraq has agreed terms that will allow it to export oil again.

The Iraqi UN ambassador Mr Nizar Hamdoon said Baghdad had agreed to all UN conditions that had held up implementation of an "oil-for-food" deal, and he predicted oil could start flowing sometime in December.

Agreement could end a ban that has been in force since the Gulf war and allow one of the world's leading oil producers back into the market at a time when oil prices are being squeezed higher by supply shortages.

Rumours of an Iraqi return have appeared before but yesterday's report, boosted by a comment from one UN official that there were no big barriers to be overcome, was being taken seriously. Mr Brendan Wilders of ABN Amro Hoare Govett said: "This could be significant. If true, it will take the tightness out of the market." Year".

Lasmo and Enterprise, which had both been stronger earlier on news reports of a fundamental re-rating of the companies' valuations, ended the day lower. Lasmo was down 3 at 217½p and Enterprise, which was up 18½ earlier, closed 1¼ off at 577½p. BP ended a net 4½ off at 692p and Shell Transport 1½ weaker at 996½p.

Glaxo Wellcome, down 5 per cent from its early October peak as investors worried about the effect of strengthening sterling on the profits of big dollar earners, recovered 26¼ to 1003p.

Part of the bounce was attributed to a general scramble for stocks with a big Footsie weighting. However, there was also pressure from the US, where the pharmaceutical sector was lifted by a Merrill Lynch recommendation on Merck.

Finally, UK marketmakers were preparing themselves for a positive piece of research from ABN Amro Hoare Govett. Hoare is believed to be about to argue that next year's patent expiry on Zantac, Glaxo's big anti-ulcer treatment, may not be as serious as the market believes. The broker has a price target of between 1070p and 1170p on the shares.

Among transport stocks, channel tunnel operator Eurotunnel gave up 5 to 81p, as the stock continued to suffer from negative comment following last week's fire and reports that repairs would take three months.

P&O, which operates ferries across the channel, is expected to gain from the continued closure of the tunnel to passenger services and the group's shares improved 6 to 600p, with James Capel said to be keen on the stock.

Uncertainty over British Airways' planned alliance with American Airlines left the shares trailing 8¼ to 596½p.

Market hopes of a freeze or a cut in excise duties on alcohol gave a boost to several stocks in the sector. A report from HSBC Markets said that cuts in alcohol duty would boost the government's popularity and could give inflation "a vital downward nudge".

Guinness, with a large spirits portfolio, rose 10¼ to 467p on such speculation, coupled with favourable weekend press comment on the stock. Bass, the UK's largest brewer, rose 7½ to 814½p on hopes of a cut in excise duty on beer as well as talk that a ruling is expected shortly on its proposed acquisition of the majority of Carlsberg-Tetley. Whitbread rose 4 to 751¼p with NatWest Securities reiterating its "add" stance and emphasising the earnings momentum coming from Whitbread's investment in restaurants.

Greenalls Group rose 9 to 602p on market rumours that it may dispose of some of its hotels.

Matthew Clark, which has been severely affected by a profits warning in the autumn, rose 10 to 292½p with PDFM announcing that it now has a 19.98 per cent stake in the drinks company.

Analysts described as "disappointing" interim results from Merrydown, the cider maker and distributor of Two Dogs, an alcoholic lemonade. Analysts attributed the fall in profits, compared to last year, on a £750,000 spend on promoting Two Dogs, discounts on canned alcoholic lemonade and higher apple concentrate prices. Kleinwort Benson, the house broker, trimmed its full year forecast from £2.25m to £1.5m. Some analysts speculated that the alcoholic lemonade sector could be a target in the budget for increased taxation. The shares fell 8½ to 100p.

The retail sector strengthened with the market anticipating a tight Budget, which would reduce the likelihood of interest rate rises. Marks & Spencer climbed 8¼ to 499p. Kingfisher strengthened 10½ to 638p and Boots rose 11 to 632p.

Financial stocks, heavily exposed to big market movements, were all marked higher as Footsie put on another strong performance. Legal & General was helped further by Lehman Brothers, which repeated a positive recommendation and set a 12-month price target of 400p. The shares rose 8¼ to 354½p. Lehman raised estimates for Legal's profit in 1996 and 1997 by about 8 per cent to £311m and £352m respectively. The broker raised the dividend expectations to 11.25p in 1996 and to 13p for the year after.

Prudential was up 8 at 476½p, Commercial Union 11½ at 656p and General Accident 6½ at 730½p.

Fund manager Mercury Asset Management rose to a new high on Monday, reflecting strength in UK markets but also on speculation it could be added to the FTSE 100 next month. The stock was up 43½ at 1203½p.

Engineering group IMI cheered the market with its £89m acquisition of US pneumatic components manufacturer ISI Automation. The shares, which have been weak in recent sessions following a series of profit downgrades, improved 11½ to 367½p in trade of 2.2m.

News of a small order combined with the strong market trend to drive Rolls-Royce sharply ahead. The shares jumped 10½ to 257½p, the best performer in the Footsie, in trade of 5.6m. Rolls said its Peebles Electric unit had won an £8m order to supply power generation equipment to an Egyptian chemical plant.

Metals group Johnson Matthey, which reports interim figures on Thursday, was under pressure, on talk of production problems at one of its plants. The shares fell 5½ to 533½p, with ABN Amro Hoare Govett also said to be negative on the stock.

Geest hardened 9 to 262½p, with analysts saying that the market was beginning to appreciate the merits of the food group's recent acquisition of Vaco, a Belgian specialist chilled foods company.

FT 30 INDEX

	Nov 25	Nov 22	Nov 21	Nov 20	Nov 19	Yr ago	*High	*Low
FT 30	2828.6	2810.5	2775.0	2784.9	2797.8	2673.0	2885.2	2669.8
Ord. div. yield	4.02	4.05	4.11	4.09	4.08	4.03	4.22	3.76
P/E ratio net	17.14	17.04	16.79	16.84	16.88	16.85	17.46	15.80
P/E ratio nil	16.98	16.88	16.63	16.68	16.72	15.76	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2814.5	2820.4	2825.4	2820.7	2823.8	2826.6	2826.5	2827.8	2827.1	2829.4	2813.1

	Nov 25	Nov 22	Nov 21	Nov 20	Nov 19	Yr ago
SEAQ bargains	47,812	41,129	36,142	37,750	36,345	32,568
Equity turnover (£m)†	-	1507.0	1046.0	1103.5	1023.3	1674.6
Equity bargains†	-	27,896	23,341	24,414	22,302	37,948
Shares traded (m)†	-	477.4	436.7	394.2	367.3	717.8

†Excluding intra-market business and overseas turnover.

	Nov 25	Nov 22	Nov 21	Nov 20	Nov 19	Yr ago	*High	*Low
FTSE AIM	1029.00	1024.90	1023.80	1025.80	1026.40	-	1140.40	965.70

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	866	Total Highs	119	Total contracts	63,487
Total Falls	409	Total Lows	77	Calls	43,313
Same	1,312			Puts	20,174

Nov 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4036.0	4066.0	+34.0	4075.0	4035.0	13592	55813
Mar	4079.0	4088.0	+35.5	4091.0	4079.0	2387	4855
Jun	-	4104.0	+38.0	-	-	0	1765

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4435.0	4435.0	+15.0	4435.0	[illegible]	10	4201
Mar	4483.0	4507.0	+51.0	4507.0	4507.0	680	670

■ FTSE 100 INDEX OPTION (LIFFE) (4046) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

† Alternative Investment Market. ‡ Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 22	% chg on day	Nov 21	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1905.67	−1.6	1936.04	1946.86	1.81	-	2528.73	1858.84
■ Regional Indices								
Africa (14)	2415.18	−2.4	2475.32	2494.41	3.22	34.38	3563.85	2332.70
Australasia (6)	2117.26	−2.3	2166.60	2224.21	2.71	20.87	2827.34	2005.75
North America (12)	1725.35	−1.1	1784.34	1812.25	0.76	66.85	2166.39	1812.25

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 25	Day's chge%	Nov 22	Nov 21	Nov 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4054.6	+0.9	4018.7	3953.8	3962.8	3649.0	3.91	2.04	15.69	162.64	1691.60
FTSE 250	4422.3	+0.3	4411.3	4397.0	4400.2	3944.3	3.54	1.60	22.52	165.93	1808.09
FTSE 250 ex IT	4451.9	+0.2	4451.8	4436.2	4439.6	3962.9	3.64	1.62	22.54	174.13	1826.30
FTSE 350	2012.2	+0.8	1997.1	1970.4	1974.2	1807.4	3.88	1.98	16.89	79.66	1714.87
FTSE 350 Higher Yield	1921.4	+0.9	1903.9	1872.8	1877.4	1809.4	5.09	1.81	13.56	99.59	1379.02
FTSE 350 Lower Yield	2110.6	+0.6	2097.7	2075.0	2078.2	1809.9	2.69	2.14	21.67	60.27	1480.71
FTSE SmallCap	2166.17	+0.1	2163.91	2160.19	2159.80	1946.67	3.16	1.59	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	2168.36	—	2167.31	2163.82	2162.26	1930.56	3.36	1.66	22.47	69.14	1820.14
FTSE All-Share	1983.72	+0.7	1969.77	1945.10	1946.57	1781.79	3.78	1.91	17.30	77.13	1716.24

■ FTSE Actuaries Industry Sectors

	Nov 25	Day's chge%	Nov 22	Nov 21	Nov 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3907.06	−0.3	3919.99	3833.01	3854.03	3097.62	3.65	1.71	20.05	142.73	1712.52
12 Extractive Industries(6)	4212.70	—	4214.48	4142.21	4062.24	4300.32	3.85	2.89	12.20	162.00	1255.59
15 Oil, Integrated(3)	4039.06	−0.4	4055.68	3968.29	4007.72	3112.41	3.62	1.55	21.09	154.36	1819.16
18 Oil Exploration & Prod(14)	2919.37	—	2919.98	2816.01	2820.18	1904.22	1.81	1.72	40.22	52.93	1769.51
20 GEN INDUSTRIALS(275)	1991.92	+0.3	1985.77	1973.70	1973.03	1940.43	4.30	1.66	17.32	80.14	1111.74
21 Building & Construction(34)	1165.65	+0.1	1164.53	1164.11	1167.03	1001.10	3.62	1.47	23.54	39.95	983.76
22 Building Matls & Merchs(29)	1824.66	−0.6	1835.04	1814.66	1814.02	1767.81	4.24	1.40	21.09	75.00	941.54
23 Chemicals(25)	2374.59	−0.3	2380.83	2368.29	2370.03	2341.27	4.34	1.44	20.00	98.47	1150.60
24 Diversified Industrials(19)	1406.29	+0.1	1404.52	1393.31	1395.94	1750.15	7.21	1.69	10.71	90.05	811.14
25 Electronic & Elect Equip(36)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(14)	[illegible]										
28 Paper, Pckg & Printing(28)	[illegible]										
29 Textiles & Apparel(19)	[illegible]										
30 CONSUMER GOODS(82)	[illegible]										
32 Alcoholic Beverages(8)	[illegible]										
33 Food Producers(25)	[illegible]										
34 Household Goods(15)	[illegible]										
36 Health Care(18)	[illegible]										
37 Pharmaceuticals(14)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(253)	[illegible]										
41 Distributors(30)	[illegible]										
42 Leisure & Hotels(28)	[illegible]										
43 Media(45)	[illegible]										
44 Retailers, Food(14)	[illegible]										
45 Retailers, General(45)	[illegible]										
47 Breweries, Pubs & Rest.(21)	[illegible]										
48 Support Services(50)	[illegible]										
49 Transport(23)	[illegible]										
60 UTILITIES(33)	[illegible]										
62 Electricity(12)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(8)	[illegible]										
68 Water(11)	[illegible]										
69 NON-FINANCIALS(686)	[illegible]										
70 FINANCIALS(104)	[illegible]										
71 Banks, Retail(9)	[illegible]										
72 Banks, Merchant(6)	[illegible]										
73 Insurance(21)	[illegible]										
74 Life Assurance(7)	[illegible]										
77 Other Financial(20)	[illegible]										
79 Property(42)	[illegible]										
80 INVESTMENT TRUSTS(126)	[illegible]										
89 FTSE All-Share(896)	1983.72	+0.7	1969.77	1945.10	1946.57	1781.79	3.78	1.91	17.30	77.13	1716.24
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4030.7	4040.7	[illegible]								
FTSE 250	4417.5	4418	[illegible]								
FTSE 350	2002.4	2006	[illegible]								

Time of FTSE 100 Day's high: 13:37 PM [illegible]

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1133.0	1132.7	[illegible]									
Pharmaceuticls	5708.5	5759.4	[illegible]									
Water	2289.3	2289.1	[illegible]									
Banks, Retail	4819.6	4825.2	[illegible]									

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FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 25 / Sch)

BELGIUM/LUXEMBOURG (Nov 25 / Frs.)

CZECH REP (Nov 25 / Korun)

DENMARK (Nov 25 / Kr)

FINLAND (Nov 25 / Mks)

FRANCE (Nov 25 / Frs.)

GERMANY (Nov 25 / Dm.)

GREECE (Nov 25 / Drachmae)

ITALY (Nov 25 / Lire)

NETHERLANDS (Nov 25 / Fls.)

NORWAY (Nov 25 / Kroner)

POLAND (Nov 25 / Zloty)

PORTUGAL (Nov 25 / Escudo)

SPAIN (Nov 25 / Pta.)

SWEDEN (Nov 25 / Kronor)

SWITZERLAND (Nov 25 / Frs.)

TURKEY (Nov 25 / TL Lira)

PACIFIC

JAPAN (Nov 25 / Yen)

AUSTRALIA (Nov 25 / Aust$)

HONG KONG (Nov 25 / HK$)

INDONESIA (Nov 25 / Rupiah)

MALAYSIA (Nov 25 / MYR)

NEW ZEALAND (Nov 25 / NZ $)

SINGAPORE (Nov 25 / S$)

SOUTH KOREA (Nov 25 / Won)

TAIWAN (Nov 25 / TW $)

THAILAND (Nov 25 / Baht)

NORTH AMERICA

CANADA

TORONTO (Nov 25 / Can $) 4 pm close

MONTREAL (Nov 25 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Nov 25 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Nov 25	Nov 22	Nov 21	1996 High		1996 Low	
Argentina							
General(29/12/77)	(c)	17704.87	17816.87	[illegible]	20/5	[illegible]	2/8
Australia							
All Ordinaries(1/1/80)	2394.7	2393.4	2392.5	[illegible]	25/11	[illegible]	17/7
All Mining(1/1/80)	950.4	947.2	954.4	1116.48	8/8	[illegible]	12/11
Austria							
Credit Aktien(30/12/84)	371.59	371.00	369.00	394.68	31/5	349.19	8/9
Traded Index(2/1/91)	1100.85	1097.98	1095.78	1142.91	28/5	995.27	3/1
Belgium							
BEL20(1/1/91)	1871.91	1865.21	1863.65	1872.17	18/11	1574.89	2/1
Brazil							
Bovespa(29/12/83)	(c)	65453.0	65250.0	[illegible]	21/10	40001.00	2/1
Canada							
Metals Mins♦(1975)	(c)	5486.05	5532.76	[illegible]	8/5	4697.42	16/1
Composite♦(1975)	(c)	5917.80	5922.20	5988.10	20/11	4639.70	15/1
Portfolio§§(4/1/83)	(c)	2950.80	2944.86	2981.93	20/11	2327.38	15/1
Chile							
IGPA Gen⊕(31/12/80)	(c)	5211.10	5218.77	[illegible]	8/1	5171.28	18/11
Denmark							
CopenhagenSE(3/1/83)	462.56	460.92	440.84	464.38	21/10	368.48	2/1
Finland							
HEX General(28/12/90)	2408.42	2432.14	2380.36	2408.42	25/11	1891.67	10/1
France							
SBF 250(31/12/90)	1525.95	1512.70	1502.68	1525.95	25/11	1280.16	2/1
CAC 40(31/12/87)	2277.14	2255.47	2233.57	2277.14	25/11	1897.25	11/1
Germany							
FAZ Aktien(31/12/58)	957.42	959.77	959.05	[illegible]	15/11	818.92	2/1
Commerzbank(1/12/53)	2826.50	2801.1	2797.0	2829.70	15/11	2370.10	2/1
DAX‡(30/12/87)	2799.19	2783.69†	2772.34	2799.19	25/11	2284.86	2/1
Greece							
Athens SE(31/12/80)	909.09	906.02	900.65	1017.88	4/3	872.58	7/8
Hong Kong							
Hang Seng(31/7/64)	13238.39	13116.79	13099.58	13238.39	25/11	10204.87	2/1
India							
BSE Sens.(1979)	2894.98	2985.68	3043.33	4069.38	18/6	2920.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	628.23	612.86	602.98	630.21	24/4	513.48	3/1
Ireland							
ISEQ Overall(4/1/88)	2805.21	2803.87	2818.20	2789.04	4/10	2234.81	2/1
Italy							
Banca Comm.Ital(1972)	659.35	657.05	653.54	674.10	20/5	572.21	27/3
MIB General(2/1/86)	1118.0	1115.0	1108.0	1142.89	20/5	978.09	27/3
Japan							
Nikkei 225(16/5/49)	21293.57	21218.11	21143.34	[illegible]	26/6	19734.70	13/3
Nikkei 300(1/10/82)	297.80	296.83	295.55	319.70	26/6	284.48	11/3
Topix(4/1/68)	1578.47	1573.58	1570.81	1722.13	26/6	1534.12	13/3
2nd Section(4/1/68)	1998.17	1995.19	2004.18	2281.48	3/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1225.82	1217.86	1208.72	1225.82	25/11	995.38	3/1
Mexico							
IPC(Nov 1978)	(c)	3350.29	3330.04	[illegible]	2/8	[illegible]	9/3
Netherland							
CBS TtlRtnGen(End 83)	719.6	719.7	709.6	719.80	25/11	569.50	2/1
CBS All Shr(End 83)	421.7	417.1	412.6	421.70	25/11	339.70	2/1
New Zealand							
Cap. 40(1/7/86)	2359.17	2352.13	2358.40	[illegible]	23/10	2095.24	7/8
Norway							
Oslo SE(Ind)(2/1/83)	1004.59	1005.74	1006.32	[illegible]	22/11	1299.88	30/1
Philippines							
Manila Comp(2/1/85)	3104.48	3102.36	3089.11	3225.48	5/7	2578.87	2/1
Portugal							
BVL 30(4/1/93)	2078.89	2074.87	2082.09	2082.24	18/11	[illegible]	2/1
Singapore							
SES All-S'pore(2/4/75)	546.41	539.84	539.27	608.27	5/2	506.38	23/10
South Africa							
JSE Gold(28/9/78)	1621.3▼	1680.5	1704.6	2288.48	28/5	1546.48	2/1
JSE Ind.(28/9/78)	7854.8▼	7852.9	7888.1	8038.30	25/1	7362.48	21/8
South Korea							
KoreaCompEx**(4/1/80)	(c)	734.44‡	744.91	[illegible]	7/5	728.52	11/11
Spain							
Madrid SE(30/12/85)	392.43	394.20	391.41	397.43	23/11	323.75	11/1
Sweden							
AffarsvardsGen(1/2/37)	2305.2	2280.6	2254.4	2305.20	25/11	1766.88	23/1
Switzerland							
Swiss Bk Ind(31/12/58)	1930.71	1930.08	1918.60	1940.95	15/11	1695.39	17/1
SBC General(1/4/87)	1307.52	1305.74	1299.61	1308.87	15/11	1114.47	29/1
Taiwan							
WeightedPr.**(30/6/66)	6938.87	6781.39	6682.49	6938.87	25/11	4690.22	8/2
Thailand							
Bangkok SET(30/4/75)	887.77	878.38	885.35	1415.81	6/2	865.91	15/10
Turkey							
Istanbul Comp.(Jan 1986)	89079.9	[illegible]	87252.2	[illegible]	25/11	38773.38	2/1
WORLD							
MS Capital Intl(1/1/70)	834.0*	834.8	829.1	834.0	25/11	728.88	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1858.87	1895.10	1827.09	1858.87	25/11	1584.48	11/1
Euro Top-100(26/6/90)	1553.13	1551.84	1537.02	1553.13	25/11	1333.01	11/1
HSBC JC Brgn(31/12/86)	(c)	412.48	408.98	412.48	22/11	344.19	2/1
MS Emgs Emg(7/1/92)	(c)	159.80	159.22	165.85	4/7	147.25	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Nov	2271.0	2277.0	+18.0	2282.0	2267.0	13,447	22,050
Dec	2273.0	2280.0	+18.0	2285.0	2270.5	3,943	22,325
DAX							
Dec	2782.0	2806.0	+31.0	2812.0	2780.0	23,058	-
Mar	2801.0	2825.0	+31.0	2830.5	2801.0	581	-
OMX							
Dec	1801.50	1805.00	+12.75	1818.00	1801.50	4,184	27,835
Jan	1816.00	1816.00	+23.00	1818.00	1816.00	400	2,089
SOFFEX							
Dec	3900.0	3889.5	-1.5	3908.0	3881.0	3,476	20,885
Jan	3902.0	3894.0	+1.5	3902.0	3902.0	5	1,953

** Sat Nov 23: Taiwan Weighted Price 6942.18; Korea Comp Ex (c). Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 25 - 2800.52 +31.05. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

US INDICES

Dow Jones	Nov 22	Nov 21	Nov 20	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6471.76	6418.47	6430.02	6471.76 (22/11)	5032.94 (10/1)	6471.76 (22/11/96)	41.22 (8/7/32)
Home Bonds	103.76	104.02	103.65	105.80 (14/2)	100.59 (15/7)	105.77 (10/10/93)	54.99 (1/10/81)
Transport	2265.34	2238.69	2223.63	2265.34 (22/5)	1862.71 (10/1)	2265.34 (22/5/96)	13.23 (8/7/32)
Utilities	235.40	234.49	234.63	238.88 (7/11)	204.86 (30/7)	256.45 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6480.22 (6453.58) Low 6402.44 (6370.02) (Theoretical♦) Day's high 6471.76 (6438.22) Low 6418.47 (6393.60) (Actual♦)

Standard and Poors	Nov 22	Nov 21	Nov 20	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	748.73	742.76	743.95	748.73 (22/11)	598.48 (10/1)	748.73 (22/11/96)	4.40 (1/6/32)
Industrials▼	878.84	871.74	872.81	878.84 (22/11)	702.87 (15/1)	878.84 (22/11/96)	3.52 (30/6/32)
Financial	82.87	81.86	82.28	82.87 (22/11)	58.67 (10/1)	82.87 (22/11/96)	7.13 (4/4/74)
NYSE Comp.	394.65	392.25	392.89	392.89 (20/11)	321.41 (10/1)	392.89 (20/11/96)	4.64 (25/4/42)
Amex Mkt Val	580.77	587.76	587.19	614.98 (22/5)	525.60 (10/7)	614.98 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1274.38	1258.88	1264.84	1274.38 (22/11)	988.57 (15/1)	1274.38 (22/11/96)	54.87 (31/10/74)

RATIOS

	Nov 22	Nov 15	Nov 8	Year ago
Dow Jones Ind. Div. Yield	2.02	2.05	2.09	2.32
	Nov 20	Nov 13	Nov 6	Year ago
S & P Ind. Div. yield	1.84	1.87	1.89	2.38
S & P Ind. P/E ratio	22.99	22.84	23.58	19.03

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
CMTV Als	12,480,600	25⅝	—
Micron	11,477,700	32⅝	+1⅝
Vodafone	9,312,700	42⅝	+⅜
WMX Tech	7,610,800	35⅝	+2⅝
PepsiCo	7,518,200	30	-⅜
Rio Stm	6,773,804	28⅝	+5⅝
Occidt Pet	5,856,700	24	-1
IBM	4,877,500	158⅝	+4⅝
Echand	3,713,400	33⅝	+1
Westpt Stn	3,608,300	29⅝	+1⅝

TRADING ACTIVITY

● Volume (million)	Nov 22	Nov 21	Nov 20
New York SE	525.208	468.701	489.397
Amex	25.298	22.017	23.868
NASDAQ	605.408	588.138	577.640
NYSE			
Issues Traded	3,310	3,302	3,307
Rises	1,511	1,200	1,358
Falls	959	1,209	1,078
Unchanged	840	893	879
New Highs	284	200	282
New Lows	22	35	21

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Dec	751.05	753.40	+2.20	759.40	750.20	69,888	191,707
Mar	758.30	759.60	+1.40	760.15	757.15	4,034	22,382

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Nikkei 225							
Dec	21370.0	21300.0	+80.0	21410.0	21250.0	30,988	214,431
Mar	21400.0	21330.0	+80.0	21450.0	21290.0	12,361	51,890

Open interest figures for previous day.

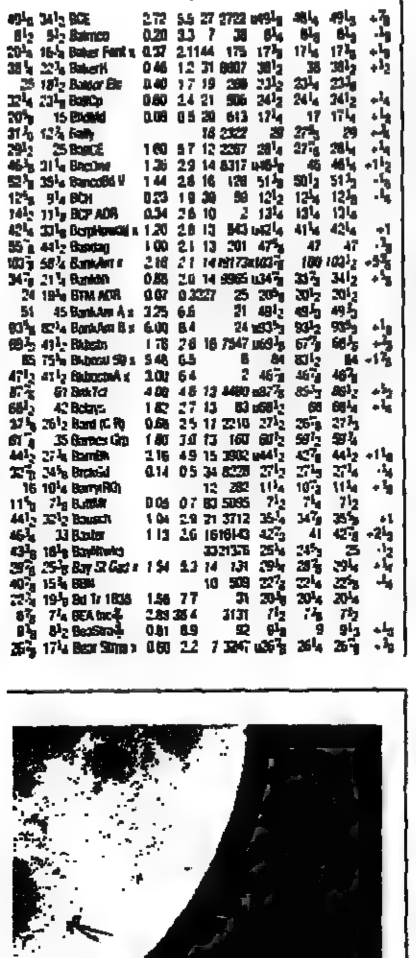
TOKYO - MOST ACTIVE STOCKS: Monday, November 25, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	10.3m	931	+13	Fujitsu	6.0m	1100	+30
NEC Corp	10.0m	1410	+30	Fujikura	4.8m	973	+26
Honda Motor	9.2m	3200	+140	Toshiba Corp	4.8m	751	+11
Toyota Motor	7.2m	3080	+80	Hitachi	4.2m	1070	+20
NKK Corp	6.2m	294	+1	Nippon Steel Cp	4.0m	349	-3

4 pm close November 25

NEW YORK STOCK EXCHANGE PRICES

1996 High	1996 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
31¼	17¾	AAR	0.48	1.6	28	1778	30⅛	29	29⅝	+⅝
46⅛	33	AMP	1.00	2.7	18	7979	37½	36⅝	37⅜	+⅜
97½	88	AMR			18	8129	93	91	92⅝	+1⅝
50½	37⅜	ASA x	1.40	3.7	24	1091	38⅛	d37⅜	37½	-¾
57⅞	38⅛	Abbott	0.96	1.7	24	17379	u57⅛	55⅜	57	+1¼
17¼	12¼	Abitibi Pr	0.40	2.6	7	2448	15⅛	15	15⅛	+⅛
20¾	13½	ABM Ind	0.35	2.1	17	166	17⅛	16½	16⅝	-½
22½	13⅞	Acptncsin			10	50	20¾	20⅝	20⅝	+⅛
60	37¾	ACE Ltd	0.56	1.0	14	564	58⅜	58	58¼	+⅛
10⅜	9⅛	ACM Gvt In	0.90	8.9	6	520	u10⅜	10⅛	10¼	-⅛
7⅞	6⅝	ACM GvOpp	0.57	7.9		242	7⅛	7¼	7¼	
9⅞	8⅝	ACM Man	0.90	9.2		352	u9⅞	9¾	9¾	-⅛
13⅞	6⅛	Acme Elect	0.32	4.4	55	72	7¼	7⅛	7¼	+⅛
20⅜	13⅞	Acme Mtls			14	86	20¼	19⅝	20¼	+½
33¾	27¼	Acnelia	0.80	2.6	15	10	30½	30½	30½	
24¾	12	Acuson			108	381	22⅞	22½	22⅞	+¼
27⅛	17⅞	Adams Exp x	0.55	2.8	1	145	19⅞	19¾	19⅞	+⅛
[illegible]	[illegible]	[illegible]			25	11954	25¾	24¾	24¾	
11⅛	8½	Advest Grp	0.16	1.5	7	378	10⅝	10⅛	10⅜	+¼
[illegible]										



Continued on next page

4 pm close November 25

NYSE PRICES

Continued from previous page

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sh-splits. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

† Dealings suspended.

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AMEX PRICES

4 pm close November 25

[illegible]

NASDAQ NATIONAL MARKET

4 pm close November 25

[illegible]

US shares climb above 6,500 level

AMERICAS

US shares continued their record course, the Dow Jones Industrial Average piercing the 6,500 mark by early afternoon, *writes Lisa Bransten in New York.*

At 1 pm, the Dow was 37.65 stronger at 6,509.41, putting it on a path to set its 11th record in 12 sessions. The Standard & Poor's 500 was also in record territory with a gain of 4.85 at 753 and the American Stock Exchange composite edged up 0.05 at 590.82. NYSE volume came to 265m shares.

Bonds provided some support to shares as they regained some of the losses made on Friday, sending interest rates lower. Activity was expected to be quiet for much of this week because of the Thanksgiving holiday, although important data on durable goods orders and gross domestic product was due out tomorrow. The equity markets will be closed on Thursday and open for only a half-day on Friday.

Technology shares were also stronger in spite of some profit-taking among the largest companies in the Nasdaq composite. In the early afternoon the Nasdaq, with a content of about 40 per cent in technology shares, was on course to set a new record with a gain of 5.13 at 1,279.49. The Pacific Stock Exchange technology index, however, was flat.

Intel, the largest company in the Nasdaq, lost $1⅞ at $120¾ while Microsoft, the second-largest company added $1⅝ at $151⅞.

Falling interest rates helped banks make gains. JP Morgan, which is a component of the Dow, added $1⅝ at $92⅝. Citicorp rose $2¼ to $108¾ and Chase Manhattan Bank was $2½ higher at $94½. An analyst upgrade helped BankAmerica rise $4¾ or 5 per cent to $102¾.

KeyCorp rose $1⅞ or 4 per cent to $50 after announcing that it would cut about 10 per cent of its employees in a restructuring.

PanEnergy climbed $1⅝ or 4 per cent to $44 on news that it had agreed to be acquired by Duke Power in a stock deal that values the shares at about $48 each. Shares in Duke slipped $1⅝ at $46¼.

TORONTO returned to the upside during a morning session which doggedly mirrored Wall Street's early advance. At noon, the 300 composite index was up 28.94 at 5,945.74.

Banking and consumer product stocks led the advance with sector gains of 1.9 per cent and 1.1 per cent respectively. Dull bullion pushed golds down by 0.47 per cent.

Alcan dipped 15 cents to C$47.35 and Northern Telecom came off 20 cents to C$87.70. Seagram added C$1.00 to C$55. Banks were firm. Toronto-Dominion Bank gained 95 cents to C$35.35.

CANTV dominates Caracas

CARACAS moved sharply lower during a morning session dominated by trading in newly floated CANTV. The IBC index slid 89.8 to 6,122.8 at midsession.

CANTV, the telecoms group, fell back Bs12 to Bs1,715. Floated at Bs1,546, the shares made their stock market debut last Friday.

MEXICO CITY drifted lower in dull volume following weakness for Mexican ADRs on Wall Street, where Telmex fell heavily. At midsession, the IPC index was off 26.07 at 3,262.22.

SAO PAULO and BUENOS AIRES both managed a limited gain. The former was up 0.5 per cent on the Bovespa at midsession following an active morning for Banespa, on talk of conversion of the Brazilian state bank into a federal bank. The index was 335 ahead at 66,788.

In Buenos Aires, the Merval index was little changed, showing a midsession gain of 1.15 to 606.21.

Continent sees seven more all time highs

EUROPE

With the dollar higher against the D-Mark, and Wall Street adding more to Friday's gains, seven bourses reached all-time closing highs in continental Europe; German equities were the merest fraction short, and the French market ended at yet another 1996 peak.

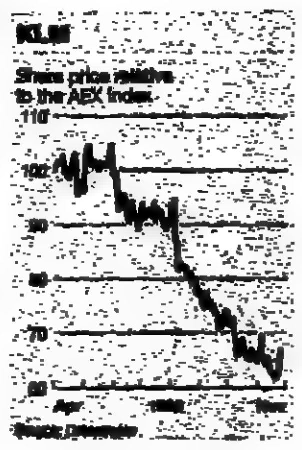
AMSTERDAM pushed deeper into record high ground, helped by strong financials, good gains for international stocks and rapid acceleration, driven by share buyback talk at KLM.

In solid two-way volume, the AEX index continued to build on recent gains, advancing by 1.3 per cent for a gain of 7.80 to 623.27.

News of exploratory talks between KLM and the government, which might lead to a partial buyback of the state's 38.2 per cent stake, led to an active session for the airline.

The shares, which had been a weak market since mid-summer, tumbling from a peak of Fl 64.30, jumped more than 8 per cent. They closed up Fl 3.40 at Fl 45 in volume of 3.5m shares.

ABN-Amro added to Friday's strong US acquisition driven gains, climbing a further Fl 2.40 to Fl 112.10. Fortis Amev, due to release nine month results on Thursday, added Fl 1.10 to Fl 56.60.



The dollar uptick sparked a rise of Fl 1.20 to Fl 65.90 for Philips and Fl 3.10 to Fl 290.30 at Royal Dutch.

Nordic interest focused on financials as STOCKHOLM, HELSINKI and COPENHAGEN all peaked again. In the Swedish market the insurer, Skandia, and the mortgage bank, Stadshypotek, announced a proposed merger. The terms were designed to increase value for both sets of shareholders, but left Skandia SKr11.50 lower at SKr197 as Stadshypotek rose SKr5 to SKr208.

The Swedish insurance sector fell 3.2 per cent as banks registered a 1.45 per cent rise. But there were compensating gains elsewhere: Ericsson Bs climbed SKr3.50 to SKr208, and Electrolux by SKr7 to SKr394 on worldwide optimism in the appliance sector.

Ericsson's Finnish competitor in telecoms, Nokia, helped the Hex index to a gain of 6.27 at 2,408.42 but, here again, the real action was in financials; the banks and finance index jumped 1.9 per cent and Merita, the holding group, by 30 penni to FM14.70 on hopes that Skandia might also merge with Pohjola, the Finnish insurer in which Merita has a 16 per cent holding.

Danish shares saw Carlsberg, the brewer, DKr7 lower at DKr375 on results which came out as expected. But in banks, Den Danske Bank soared DKr9 to DKr446 and its rival, Unidanmark, rose DKr4 to DKr290.

The other three all time peaks were achieved in Spain, Belgium and Turkey. MADRID saw Telefónica Pta60 higher at Pta2,845 in nearly 3m shares ahead of the placing of the government's 21 per cent stake. Repsol, the oil group, put on Pta75 at Pta4,570 as the general index rose 3.28 to 397.43.

BRUSSELS liked the stronger dollar and the Dow's bullish run, ending with the Bel-20 index 6.70 better at 1,871.91; and ISTANBUL added 1.3 per cent to last week's 5.4 per cent gain, the composite index ending 1,095.93 higher at 88,079.86. However, brokers said that the key index was still 12 per cent down in dollar terms compared with its 1996 high on April 3.

PARIS notched up another high for the year with the CAC 40 shrugging off a bad day for Eurotunnel, which plunged almost 7 per cent, to close with a gain of 21.67 to 2,277.14.

Pinault-Printemps-Redoute and Lyonnaise des Eaux were the hot stocks. The retailer surged FFr45 to FFr1,995 following an upbeat press interview with its chairman, Mr Serge Weinberg.

Lyonnaise des Eaux gained FFr16.50 to FFr489 as investors warmed to the news that the group was mopping up the 28.2 per cent outstanding shares in its energy unit, Elyo.

Eurotunnel was lagging by 10 per cent at one stage as worries about lost Christmas revenue gnawed away at sentiment. The shares ended off 50 centimes at FFr7 in volume of 3.5m shares.

Carmakers were firm following the lira's move back into the ERM. The rationale was that a stronger Italian currency would reduce Fiat's competitive edge in Europe. Peugeot added FFr12 at FFr624 and Renault FFr3.50 at FFr120.

Michelin rose in sympathy, rising FFr5.60 to FFr268.5.

FRANKFURT failed by just 0.06 of an index point to match its November 15 Ibis market close, the Dax index ending 31.05 better at 2,800.52 after an intraday record high of 2,805.75.

It had the dollar, the Dow and Deutsche Telekom on its side, the newcomer adding another 44 pfg at DM32.90 as profit takers were shaken out and topping the active stocks list in DM1.6bn out of a German stock market total DM2bn higher at DM13bn.

The dollar lifted SAP, the computer software group whose prefs rose DM5.20 or 3.1 per cent to DM207.45, and exporters like chemicals and carmakers which saw BMW up DM28.50 at DM965.50, and BASF 1.456 better at DM54.05.

However, there were less than bullish aspects in the Ifo economic institute's monthly business survey for October. The construction sector, for which current business was said to be poor, and prices still falling, saw heavy share price falls: Bilfinger & Berger ended DM2.30, or over 4 per cent down at DM545.50.

MILAN was mixed as investors gave a cautious welcome to the lira's return to the ERM. The Comit index added 2.30 to 659.35 but the real time Mibtel index ended off 51 at 10,492.

The bigger exporters bore the brunt of the downturn. Fiat ended L65 lower at L4,580 and Pirelli shed L21 to L2,756.

Written and edited by William Cochrane and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Nov 25 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1852.76	1853.63	1853.62	1854.17	1854.34	1854.89	1853.95	1853.87
FTSE Eurotrack 200	1902.93	1901.73	1901.43	1903.26	1904.46	1904.61	1901.02	1902.73

	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18
FTSE Eurotrack 100	1835.10	1827.08	1828.68	1824.80	1827.08
FTSE Eurotrack 200	1883.92	1870.57	1869.15	1869.66	1869.03

Base value 1000 (26/10/90); Highday: 100 - 1855.70; 200 - 1905.64 Lowday: 100 - 1852.76 200 - 1900.93. † Partial.

Bank float lifts financials as Taipei peaks again

ASIA PACIFIC

Another strong session for TAIPEI propelled turnover up to T$115.2bn, to mark the most active session since mid-June.

The weighted index surged 96.71 or 1.41 per cent to 6,936.87, the highest since January, 1995. The index has risen by nearly 300 points this month.

Financial stocks led the way up yesterday with the finance sector jumping 2.4 per cent. Brokers said hopes for a successful flotation at United World Chinese Commercial Bank helped to lift sentiment.

The bank floats this Friday, and a number of big shareholders were visibly strong, notably Chiao Tung Bank and Farmers Bank, both of which rose by the 7 per cent limit to T$87.5 and T$50 respectively.

Brokers said that the shift in focus away from electronics stocks to financials had been a signal for new money to flood into the market.

TOKYO rose moderately on strong but selective buying of international blue chips by institutional and foreign investors, *writes Gwen Robinson.*

The Nikkei 225 average added 77.46 to 21,293.57, after moving between 21,196.95 and 21,369.14. Vigorous buying of export-oriented blue chips highlighted the market polarisation between strong international performers, such as electricals and carmakers, and sectors like oil and construction, which are facing tough domestic operating conditions.

The Topix index of all first-section stocks rose 4.91 to 1,576.47 and the capital weighted Nikkei 300 by 1.27 to 297.80. Volume moved up from 250m shares to an estimated 305m, and declines led advances by 519 to 507, with 224 unchanged.

In London, the ISE/Nikkei 50 index rose 2.15 to 1479.25.

In carmakers, Toyota and Honda hit all-time highs, up Y140 to Y3,200 and Y80 to Y3,060 respectively. Both recently announced strong interim earnings for the first half to September. Nissan rose Y31 to Y845.

Among electricals and high tech issues, NEC marked a new high for the year, adding Y30 to Y1,410. The chipmaker, Tokyo Electron, rose Y160 to Y3,370, Fujitsu added Y30 to Y1,100 and Hitachi Y20 to Y1,070. The camera maker, Canon, surged Y90 to an all-time high of Y2,510 and Nikon advanced Y60 to Y1,440.

Leading pharmaceuticals also reached new highs for the year. Taisho added Y40 to Y2,480.

NTT, which surged on strong interim results last Friday, succumbed to profit-taking and fell Y6,000 to Y814,000. Other domestic telecommunications issues also retreated, with DDI falling Y16,000 to Y820,000.

Some regional banks continued to suffer selling pressure following the government's shutdown of Hanwa Bank last week. Tokuyo City Bank fell Y5 to Y219 and Bank of Osaka Y7 to Y308. Among leading banks, Sakura Bank shed Y30 at Y1,050.

In Osaka, the OSE average rose 136.92 to 21,613.67 in volume of 18m shares.

Some of the region took its cue from Wall Street. HONG KONG got additional support from the strength of the domestic property market as the Hang Seng index closed 122.60 higher at an all time high of 13,239.39, in turnover slightly up at HK$10.55bn.

SYDNEY, too, peaked again, but volume was thin and dealers said that a lack of company news resulted in low investor activity. The All Ordinaries index rose 11.3 to 2,394.7.

Other markets had their own agendas. SHENZHEN's flyaway B share index put on 18.8 per cent on continuing rumours that the Chinese government was drafting measures to boost the market, closing 15.62 higher at 133.44 with turnover more than doubled from HK$147m to HK$347m.

Shenzhen Bs, up more than 50 per cent over the past 10 days, had performed much more strongly than their SHANGHAI counterparts, up 17.4 per cent from a 1996 low two weeks ago and 1.988, or 3.9 per cent, higher at 52.682 yesterday.

JAKARTA soared 2.5 per cent on the listing of the state-owned Bank Negara Indonesia (BNI), coupled with active buying of other blue chips.

BNI closed at Rp1,250, a premium of Rp400 or 47 per cent over its issue price of Rp850. Brokers said that it had been widely expected that the BNI listing, which was one of Indonesia's best received new flotations, would enliven the market; the issue traded in slightly over 179m shares out of a bourse total of 311m.

Other banks were actively traded, partly on the back of the new flotation and partly because of favourable ratings assigned to them by Standard & Poors. Bank BDNI rose Rp75 to Rp2,200 in 2.5m shares.

BOMBAY recovered early losses to close sharply higher. The Sensex index ended up 109.45 at 3,001.10.

Foreign fund selling, which pushed the index down to a session low of 2,956.21, was overtaken late in the day by short-covering by local investors.

WELLINGTON stayed lacklustre, moving lower for the second day running in spite of strong overnight gains among share markets generally. The 40 capital index subsided 12.96 to 2,339.17. "It's a real case of the Monday blues", said one trader. NZ Telecom retreated 8 cents to NZ$7.41.

SEOUL hit a new low for the year on the South Korean government's plan to sell Won360bn worth of Korea Telecom shares this week, and on Saturday's arrest of the president of Seoulbank on bribery charges. The composite index fell 14.99 to 716.45 with Seoulbank Won150 lower at Won4,450.

Fall in bullion hits golds

Gold shares stayed weak in Johannesburg, dragging the overall index down by 35.4 to 6,691.3 after another bruising session for the bullion price.

Golds came off 39.2 to 1,621.3 on news that the bullion price in London had been fixed at a 30-month low. Dries fell R2 to R55 and Freegold shed R1.25 to R37.75.

The industrial index reversed early modest losses to end up 2.8 at 7,954.8, but trading was very mixed. Anglo American came off R3.75 to R256 and Liberty Life R1.50 to R117.50.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+0.96	+2.61	+14.76	+12.35	−1.18	+7.02
Belgium	+0.18	+2.40	+22.10	+15.12	+1.02	+9.40
Denmark	+0.01	+1.36	+27.81	+22.65	+6.79	+17.81
Finland	+0.79	+9.24	+23.27	+34.47	+18.89	+26.75
France	+0.64	+4.11	+22.85	+23.30	+9.34	+18.39
Germany	-1.04	+3.05	+24.76	+20.14	+5.70	+14.46
Ireland	−1.06	−1.62	+17.63	+18.73	+15.18	+24.75
Italy	+1.66	+6.78	+13.09	+7.97	+5.41	+14.17
Netherlands	+1.29	+3.33	+33.60	+26.29	+10.91	+20.10
Norway	+2.09	+6.04	+25.60	+22.94	+13.21	+22.60
Spain	+1.32	+3.36	+31.91	+25.50	+11.21	+20.44
Sweden	+1.45	+5.12	+32.38	+32.99	+22.99	+33.19
Switzerland	-0.37	+2.91	+21.04	+16.61	−2.19	+6.92
UK	+1.33	−0.23	+10.41	+8.74	+8.74	+17.75
EUROPE	+0.71	+2.26	+19.24	+16.47	+7.84	+16.77
Australia	+0.25	+2.33	+10.04	+7.16	+8.01	+16.97
Hong Kong	+3.59	+8.06	+38.07	+29.13	+19.25	29.14
Japan	+0.74	+1.31	+9.03	−0.23	-14.56	-7.47
Malaysia	+2.77	+2.91	+31.81	+22.74	+14.27	+23.74
New Zealand	-0.30	+0.70	+7.94	+6.72	+7.73	+16.67
Singapore	+1.44	+7.44	+11.01	+1.65	−5.18	+2.67
Canada	+1.22	+7.64	+29.72	+26.31	+20.67	+30.67
USA	+1.44	+6.77	+24.05	+21.09	+11.82	+21.09
Mexico	-3.04	+0.60	+28.31	+17.33	+6.07	+14.87
South Africa	−2.23	−4.22	+10.16	+6.93	−21.92	−15.44
WORLD INDEX	+1.07	+4.23	+19.62	+14.77	+4.17	+12.50

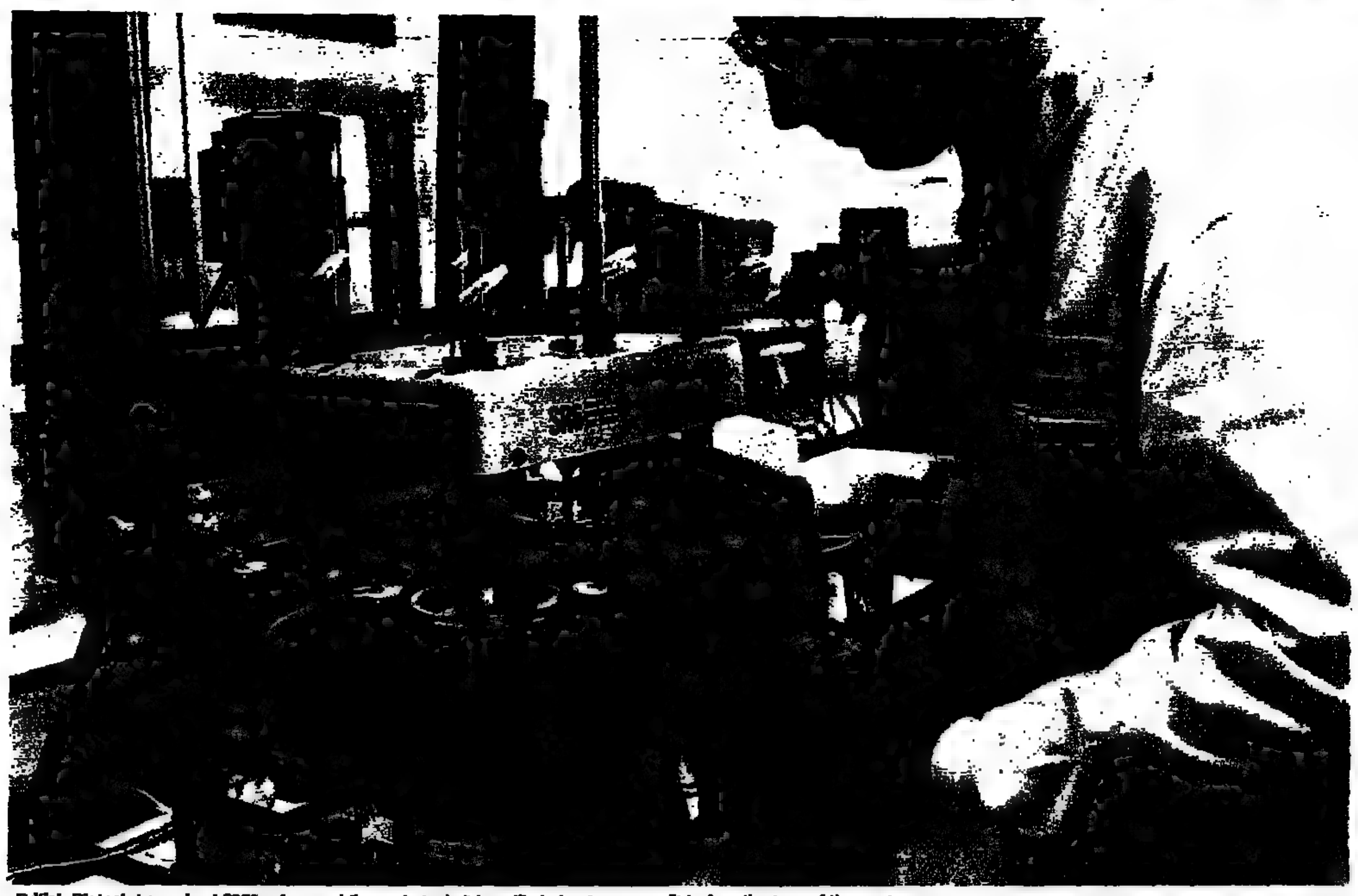
† Based on November 22nd 1996.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY NOVEMBER 22 1996								THURSDAY NOVEMBER 21 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	222.28	−0.1	196.01	156.28	173.80	182.07	−0.2	4.19	222.43	196.16	156.52	173.34	182.50	222.43	185.80	184.39
Austria (24)	186.78	0.8	164.71	131.32	145.66	145.82	1.0	1.95	185.40	162.88	130.46	144.48	144.41	195.04	168.38	173.69
Belgium (27)	228.80	−0.1	201.76	160.86	178.89	174.74	0.1	3.82	229.07	200.88	161.19	178.61	174.65	229.11	197.89	200.36
Brazil (28)	181.15	0.5	159.75	127.36	141.49	343.65	0.5	1.75	180.19	158.09	126.79	140.42	341.86	199.70	131.21	132.84
Canada (116)	193.97	0.1	171.05	136.38	151.50	188.10	0.0	1.82	193.84	170.08	136.40	151.06	188.08	194.69	144.85	147.91
Denmark (30)	340.20	−0.1	300.00	239.16	265.70	265.95	0.1	1.73	340.35	298.62	239.49	265.24	265.61	340.41	276.89	281.42
Finland (24)	240.85	0.6	212.39	169.33	188.11	229.24	0.9	2.19	239.36	210.01	168.43	186.54	227.25	240.85	171.73	210.45
France (93)	212.41	0.5	187.32	149.34	165.90	168.70	0.8	2.88	211.37	185.46	148.74	164.73	166.44	212.41	167.70	181.29
Germany (59)	187.38	−0.5	165.23	131.73	146.34	146.34	−0.3	1.67	188.35	165.19	132.49	146.73	146.73	188.59	159.80	160.19
Hong Kong (58)	500.67	0.6	441.51	362.00	391.03	497.00	0.6	3.12	497.86	436.57	350.13	387.77	493.94	500.67	362.51	362.51
Indonesia (27)	223.05	1.8	196.69	156.82	174.20	320.67	2.0	1.80	219.17	192.30	154.22	170.80	314.69	–	–	–
Ireland (16)	318.70	0.1	281.04	224.07	248.91	288.70	0.5	3.42	318.35	279.32	224.01	248.09	285.29	319.32	249.80	258.66
Italy (58)	84.14	0.7	74.19	59.15	65.71	94.28	0.8	2.20	83.59	73.34	58.82	65.14	93.49	84.53	67.22	70.25
Japan (480)	143.36	0.0	126.42	100.79	111.97	100.79	0.2	0.76	142.65	125.42	100.59	111.40	100.59	164.66	137.62	144.76
Malaysia (107)	600.31	1.2	529.37	422.05	468.85	682.27	1.1	1.06	593.26	520.54	417.47	462.35	675.62	600.31	445.00	451.40
Mexico (27)	1189.75	−0.4	1049.17	836.48	929.23	10238.07	−0.6	1.09	1194.44	1047.99	840.49	930.84	10317.57	1325.65	936.49	936.81
Netherland (19)	327.54	1.0	288.84	230.28	255.81	252.00	1.3	2.63	324.26	284.52	228.18	252.71	248.67	327.54	251.28	261.88
New Zealand (15)	92.94	−0.3	81.95	65.34	72.59	69.04	−0.6	3.99	93.22	81.79	65.60	72.65	69.48	94.35	75.94	76.57
Norway (35)	283.54	0.6	250.04	199.35	221.45	243.08	0.5	2.07	281.89	247.33	198.38	219.69	241.75	283.54	222.24	230.12
Philippines (22)	195.73	−0.1	172.60	137.61	152.87	256.29	−0.1	0.82	195.94	171.92	137.88	152.70	256.45	–	–	–
Singapore (43)	418.11	0.3	368.71	293.96	326.55	269.81	0.3	1.00	416.73	365.64	293.24	324.78	269.07	463.21	371.28	373.87
South Africa (44)	325.82	−0.6	287.32	229.07	254.47	328.30	−0.6	2.36	328.41	288.15	231.09	255.93	330.65	437.76	314.20	373.75
Spain (37)	198.95	0.5	175.44	139.88	155.39	190.55	0.8	3.14	198.01	173.73	139.33	154.31	189.10	198.95	157.69	167.88
Sweden (48)	415.66	1.6	366.54	292.24	324.64	407.22	1.8	2.09	409.01	358.88	287.81	318.75	400.63	415.66	294.10	318.98
Switzerland (37)	249.95	0.5	220.42	175.73	195.22	196.32	0.5	1.51	248.73	218.24	175.02	193.84	195.35	254.34	219.29	220.19
Thailand (45)	122.44	2.4	107.97	86.08	95.63	120.70	2.4	2.84	119.56	104.89	84.12	93.17	117.95	193.86	112.17	153.90
United Kingdom (213)	271.47	1.0	239.40	190.86	212.03	239.40	1.5	3.98	268.89	235.92	189.21	209.55	235.92	271.47	222.43	228.33
USA (624)	304.25	0.8	268.30	213.90	237.62	304.25	0.8	1.87	301.91	264.89	212.44	235.28	301.91	304.25	243.34	245.35
Americas (785)	278.35	0.7	245.46	195.70	217.40	233.36	0.7	1.96	276.34	242.46	194.45	215.56	232.25	278.35	222.53	223.82
Europe (720)	234.58	0.8	206.85	164.91	183.20	197.86	0.9	2.82	233.14	204.56	164.06	181.69	196.00	234.58	194.31	198.08
Nordic (137)	355.21	1.1	313.23	249.73	277.42	304.40	1.2	2.05	351.26	308.19	247.17	273.74	300.71	355.21	261.13	282.52
Pacific Basin (676)	160.96	0.3	141.94	113.17	125.72	114.62	0.3	1.22	160.41	140.75	112.88	125.01	114.32	177.01	155.67	164.56
Euro-Pacific (1596)	191.51	0.5	168.88	134.65	149.58	148.00	0.6	2.09	190.80	167.23	134.12	148.53	145.13	191.51	172.18	172.66
North America (740)	297.69	0.7	262.51	209.30	232.50	296.63	0.7	1.87	295.51	259.26	207.94	230.29	294.46	297.69	237.56	239.24
Europe Ex. UK (507)	209.70	0.4	184.92	147.43	163.78	172.82	0.6	2.31	208.65	183.24	146.96	162.76	171.59	209.70	174.81	177.50
Pacific Ex. Japan (396)	314.64	0.6	277.46	221.21	245.74	269.64	0.5	2.77	312.94	274.57	220.21	243.88	268.38	314.64	246.67	246.65
World Ex. US (1811)	193.47	0.4	170.61	136.03	151.11	151.32	0.5	2.05	192.63	169.02	135.56	150.12	150.50	193.47	173.24	173.69
World Ex. UK (2222)	224.11	0.5	197.63	157.57	175.04	190.72	0.6	1.82	222.90	195.57	156.85	173.71	189.67	224.11	182.48	182.49
World Ex. Japan (1955)	273.01	0.7	240.75	191.94	213.23	255.36	0.8	2.34	271.23	237.97	190.85	211.37	253.47	273.01	223.64	223.99
The World Index (2435)	228.18	0.6	201.22	160.43	178.22	195.24	0.6	2.03	226.86	199.04	159.63	176.79	193.99	228.18	186.82	186.82

Latest prices were unavailable for this edition.



British Biotech has raised £350m from public markets, but is unlikely to show a profit before the turn of the century

■ **United Kingdom** • by Daniel Green

Emerging from obscurity

Industry remains dependent on the success of high-profile companies

This year has been a watershed for the UK biotechnology sector. It has moved from being an obscure corner of UK industry to an intriguing and exciting business where the huge risks appear to be balanced, more or less, by the opportunities for growth.

A year ago there were just eight quoted biotechnology companies researching new drugs for human diseases. Now there are 16 on the main market, plus almost as many again in diagnostics, contamination detection and medical devices, and on the Alternative Investment Market.

These are only the most visible enterprises. The UK Bioindustry Association lists 892 organisations involved in biotechnology, an increase of 249 over the number counted a year ago*. More than half of those on the list are companies producing biotech products or using the techniques of biotechnology. The rest are in academia, law, finance and other services.

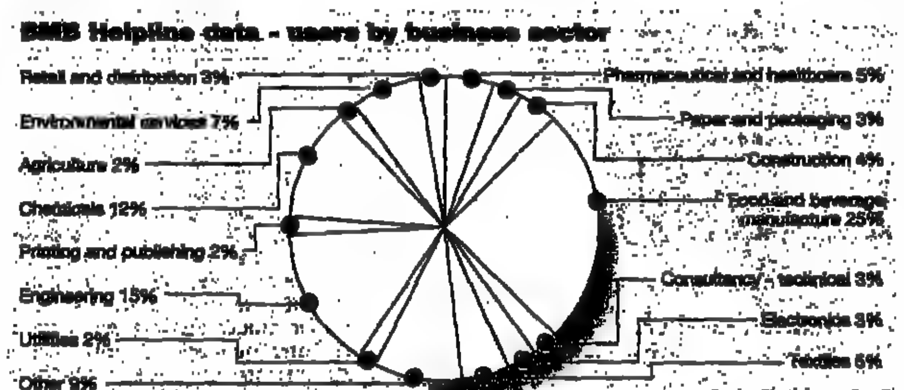
Not all are tiny start-ups: British Biotech's share price rose so high in May this year that its £2bn valuation made it a contender for inclusion in the FTSE 100 index of the UK's biggest 100 companies. It is still worth about £1.5bn.

The biotech phenomenon is large enough for the government to take an interest. The department of trade and industry's (DTI) Biotechnology Means Business (BMB) programme officially started in March 1995 as an awareness-raising exercise. That four-year, £10m programme was given another £7m in June 1996. It now includes advice on forming new businesses and intellectual property and innovation competitions.

The DTI wants to make contact with 20,000 of the 77,000 businesses it thinks could benefit from using biotechnology. They range from obvious targets such as companies in pharmaceuticals and agriculture, to those in retailing, engineering and construction.

Some will use biotechnology only peripherally in, for example, biological markers that identify products as genuine rather than counterfeit. The BMB programme has so far made contact with 9,000 companies.

BMB Helpline data - users by business sector



Source: BioCommerce Data/ DePeyto Consultants

The long-term success of the industry remains dependent, however, on the fortunes of high-profile quoted companies. This is because biotech start-ups usually need venture capital, whose practitioners need high share prices to cash-in their investments.

Although share prices in the sector often move together, the companies employ various strategies and aim at different customers.

British Biotech personifies the high risk/high reward approach to drug discovery. The company was founded in the mid-1980s, has raised £350m from public markets and further funds from collaborators in the pharmaceuticals industry. It is unlikely to make a profit this decade.

Its enormous stock market valuation is about marimastat, a cancer drug. If marimastat works, it would probably be prescribed for most cancer patients.

To put that in perspective, one recently-launched cancer drug, Taxol, made by US company Bristol-Myers Squibb, is forecast by stockbrokers Lehman Brothers to reach peak annual sales of $1.1bn a year. Yet Taxol is only approved for breast and ovarian cancers, with lung cancer a possibility for the future. On that basis, Lehman's forecast of $1bn a year from marimastat is conservative.

British Biotech's valuation is bolstered by the facts that marimastat is cheap to make and wholly-owned by the company. Most biotech companies earn cash by selling some of the rights to their inventions. And some of their drugs are chemically complex and costly to make.

But marimastat is only part of the way through is clinical trials. Still ahead are the critical Phase III trials, which will be the first in which the drug is compared with rivals in a "double-blinded" trial in which neither doctor nor patient knows which drug is being given. Other drugs which have been just as convincing as marimastat at phase II have failed at phase III.

If marimastat does fail, the damage to confidence in the UK biotech sector could be serious.

One company that might survive better than most is Celltech. Its strategy has been to sell some of the rights to its discoveries. The cash brought in, and the range of research programmes involved, means that it is less dependent on a single product than British Biotech.

As well as earning the money, Celltech has been able to persuade companies such as Merck, of the US, and Bayer, of Germany, to pay for clinical trials, the biggest single item of expenditure faced by a biotech company.

Such partnering can also reassure investors: Why would Merck pay for development if it did not think it was a good investment?

But partnering is a double-edged sword: if a partner abandons a drug, it is a vote of no confidence. And there is a view – sometimes held by executives from companies that eschew partnering – that pharmaceuticals companies are more likely to dump a project they believe to be of borderline value.

Drug development takes about 10 years, but it is a risk that is not compulsory in biotech. Taking inventions in medical devices and diagnostics to the market can be much quicker.

Biocompatibles, based in Farnham, Surrey, is a company that makes coating for medical devices that are "friendly" to the human body. As well as contact lenses, the company is working on stents, mesh cylinders that surgeons insert to hold open blood vessels.

Long-term trials of medical devices like stents are required only in the US. Biocompatibles, which is planning to launch its stents in Europe early next year, was founded at the same time as British Biotech and is likely to be profitable first.

Then there are diagnostics companies such as Dundee-based Shield, which is preparing a new blood test to predict heart trouble, and others such as Manchester's Aromascan and Cambridge's Celsis which make contamination detection equipment for the food manufacturers.

With devices, diagnostics and contamination detection, however, the risk from competition is higher than in drug discovery. Barriers to entry are lower. Markets are dominated by huge companies such as Chicago's Abbott Laboratories and Johnson & Johnson in New Jersey which guard their territory jealously.

"The trouble with diagnostics is that if you have a good product, a big bear called Abbott comes after you and eats you", says one venture capitalist who has seen that happen with his own investments.

Frightening stories like that seem not to be deterring entrepreneurs from starting their biotech companies.

The 31 quoted biotech companies followed by securities house Yamaichi in London employ almost 3,500 people between them. Their shares are among the most busily traded on the London Stock Exchange, and City stockbrokers are telling their pharmaceuticals analysts to spend more time on biotechnology. The market capitalisation of the main market 16 alone is more than £4bn.

Several companies are preparing to seek a a stock market quotation over the next year. They include Cambridge Antibody Technology, Therexsys, Cerebrus, Core Technologies, Oxford Glycosciences and more. The industry is set to be significantly bigger in a year's time.

** UK Biotechnology Handbook 1996, BIA/ BioCommerce Data, 95 High Street, Slough, Berks, SL1 1DH UK. £120.*

■ **In the markets** • by Philip Coggan

Nasdaq is the leader

Developments on European exchanges extend opportunities for funding

Biotech companies can certainly generate stock market excitement. In the year to mid-November, British Biotech shares moved up from the equivalent of 96p to 320p, fell back to 192p and then rallied to 235p.

Given the trading activity they generate and the growth potential of the industry, it is not surprising that stock exchanges are quite willing to attract biotech companies. The problem for the European markets is that the industry has mainly been developed in the US, and the exchange with the most expertise in the sector is Nasdaq.

Nasdaq offers liquidity to shareholders used to owning the famous names of the industry, such as Amgen, and enthusiastic private investors who are keen to chase the next "wonder stock". More than 80 European biotech companies have gone straight for a listing on Nasdaq, rather than opting for a local exchange. However, according to Nick Woolf, European biotechnology analyst at Nomura, "the past experience of European companies listed on Nasdaq has not been very good. It is hard to keep in close touch with your investors."

Another problem is the intrinsic suspicion felt by investors for any company listing on a non-domestic market. "A basic corporate finance rule is – if a company can't raise money in its domestic market, what's wrong with it?" says Gordon Duncan, director of Kleinwort Benson.

And, although US investors can get very enthusiastic about the biotech sector, it can also fall out of fashion very quickly. "At times, it's been difficult to raise funds on Nasdaq," says Mr Duncan.

The main London market offers a home to biotech companies, under the Chapter 20 rules which allows scientific or research-based companies without a trading record to have a stock exchange listing.

"The main market has done an excellent job in looking after these companies," says Kleinwort's Mr Duncan. "The ideal thing for a company is to get a big blue chip register of loyal long-term investors who will support future fundings. British Biotech [which has undergone a share split] has substantially got the same top quality UK institutional shareholders as Glaxo Wellcome and Zeneca. This loyal UK institutional shareholder base enabled British Biotech to conclude the largest ever funding in this sector."

One unanticipated benefit for UK companies which have stayed at home, according to Nomura's Mr Woolf, is the valuation discrepancy between the UK and Nasdaq, with investors putting a much greater value on UK biotech companies. Eventually this is likely to change as the UK sector develops.

With the main market offering a home to biotech companies, there is little incentive to seek out a quotation on the Alternative Investment Market (AIM), which is designed to appeal to younger companies but lacks the liquidity of the senior market.

That may also be a problem for Paris' attempt to attract the smaller company crowd, the Nouveau Marché. "If the Nouveau Marché is seen as a USM (Unlisted Securities Market – London's first attempt at a bourse for smaller companies) or an AIM, will it meet the biotech companies' aspirations? All emerging pharmaceutical companies should be targeting the most European market – London," says Mr Duncan. Like many new markets, the Nouveau Marché is making a slow start; by the end of September, it had only attracted 13 entrants.

The big new development which may attract European biotech companies is Easdaq, Europe's conscious attempt to mimic the US success of Nasdaq (which owns a stake in the exchange).

"Easdaq is designed to be a single market for the whole of European time zone, tapping into investor capital across the continent," says Chris Pickles, director of the European Association of Securities Dealers.

Easdaq was set up at the end of September this year, and the first company to list on the exchange looks set to be from the biotech sector – Innogenetics, a Belgian company specialising in genetic testing, which is planning to float at the end of November.

Biotech companies should have few difficulties in qualifying under the exchange's rules. No trading record is needed, and just 20 per cent of shares need to be in free float. Results must be reported quarterly, as they are on Nasdaq.

While the exchange is starting slowly in terms of attracting companies, as corporate finance departments work their way through the listing rules, it looks as if it should pass the liquidity test. Some 30 European brokers and dealers have registered as Easdaq members and Nomura's Mr Woolf reports no problems in finding market-makers willing to trade in Innogenetics. There is the possibility that some Nasdaq companies may eventually decide to list on its European sister.

There are also hopes that investors will be comfortable with Easdaq. "A Coopers & Lybrand survey found that European institutional investors would be willing to invest 2 per cent of their portfolios in such a market, if the companies were of good quality and the market was highly regulated," says EASD's Mr Pickles.

While Nasdaq is likely to be the world centre for listed biotech companies for the foreseeable future, London and Easdaq should together provide an alternative for the burgeoning European biotech sector. And if one of the European biotech companies can manage to turn itself into the next Glaxo or Zeneca, then the continent's investors will give an increasing amount of attention to the sector.

BIOTECHNOLOGY

Long way from maturity in spite of the promises

A batch of clinical trials over the coming months will strongly influence the industry's direction, writes Daniel Green

It has rarely been easier to make money in biotechnology. Venture capitalists, shareholders in publicly-quoted companies and senior biotech executives made enormous gains in the past year as share prices rose.

Yet the industry remains a long way from maturity. Patients have heard little more than promises of new drug treatments from the biotech companies. Some products are now reaching the market, but the vast majority remain in development.

The next few months could be a period of reckoning for the sector. A batch of the most promising drugs candidates complete their final clinical trials. If they work, confidence – and investment – should rise; if they fail, share prices could fall and plunge the sector back to the moribund years of 1993-5.

Biotech's recent good fortune has been at least partly the result of an unprecedented conjunction of events, according to Steven Burrill, of the San Francisco biotech finance house Burrill and Craves.

The regulatory background has been favourable. European governments are encouraging the creation of new biotechnology companies, especially in Germany where environmental pressure groups have made it difficult to use genetic engineering in research. In the past three months, Germany's Qiagen and France's Genset floated their shares on the US Nasdaq market.

The Clinton administration's healthcare reform proposals of 1993, which depressed healthcare stocks around the world for two years, are history. The healthcare industry's view of the next four years under President Clinton is that any proposals to change the US healthcare system would be modest.

Medicines regulators have cut the time they take to review applications for drug approvals. The London-based European Medicines Evaluation Agency, through which drugs can be simultaneously approved across all European Union member-states, pushes through almost everything in a year or less. Before the EMEA, regulatory approval across the EU would take several years.

The time taken by the US Food and Drug Administration (FDA) to approve drugs is at its shortest in living memory. Also, the FDA is taking into greater account clinical trials held outside the US and the opinion of regulators in some European countries.

Shorter approval times are more than just a convenience for biotech companies. Unlike their cousins in the pharmaceuticals industry, they have little sales revenue until products are launched. A delay in approval can trigger serious financial difficulties.

Biotech companies that have benefited from faster approval in the past six months include California's Gilead and Boston's Biogen. They now have Aids and multiple sclerosis treatment drugs respectively on the market.

This trickle of product launches has added to investor confidence that the industry is capable of producing genuine sales; analysts at Lehman Brothers, the stockbroker, forecast sales for Biogen's Avonex to reach $700m a year.

That meant that the best performance from pharmaceuticals company sales since the early 1990s also helped biotech share prices. As pharmaceuticals industry sales improve, so do the prospects for drugs still in research in biotechnology.

And as share prices rose, biotech companies grasped the chance to raise more money through rights issues or flotations.

In the year to November 14, biotech companies raised $7.2bn from private and public markets, compared with $3.5bn for the corresponding period in 1995, according to Bioworld Financial Watch, a US newsletter which tracks more than 250 quoted companies and many others in the private sector.

That translates into big profits for venture capital investors. Arqule, a Boston biotech company that floated last month, is three years old. Venture capitalists had invested $7m and owned half the company. The company now has a market capitalisation of about $140m.

For senior biotech executives, who are paid largely in stock and options, it also meant serious money. US executives rarely cash in options until a company is profitable, but in the UK Peter Fellner, Celltech's chief executive, exercised options to make a net profit of £1.8m, and two executives at British Biotech exercised share options worth a total of more than £3m.

Flotations reached a peak in June 1996, with $417m raised in initial public offerings. That proved to be more than investors could stomach, and share prices drifted lower and several flotations were postponed.

The price of this month's initial public offering of Pennsylvania-based ViroPharma was cut at the last minute from $11 to $13 a share to between $8 and $9.

There have been some successful flotations in the US, such as that of Arqule. But without further news of progress in important clinical trials, markets and confidence are under pressure.

There remains an unresolved tension between the US and UK markets, the two biggest in the world. It is widely believed, both in the US biotechnology industry and among US analysts, that UK investors are overestimating the prospects for UK biotech companies. One New York analyst is typical. She recommends selling British Biotech shares on the grounds that a US company with products at the same stage in clinical trials as British Biotech's would command less than half the market valuation, that is, that US companies are better value. UK companies and investors say that their US counterparts do not understand the companies they are criticising. According to one, US investors have too-vivid memories of the US biotech sector's share price crash in 1992-3 after a series of high profile failures of biotech drugs in the final stage of clinical trials.

However, some in biotech have been able to take advantage of the arbitrage opportunity presented by the differences between the two markets. A Californian biotech company, Neotherapeutics, floated last month on Nasdaq but raised a large proportion of the cash in London. The issue was oversubscribed.

Allan Ferguson, general partner of Atlas Venture, a venture capitalist in Boston, Massachusetts, says uncertainties and tensions in stock markets are likely to persist while there is speculation about the outcome of research and development.

Some of that speculation will come to an end in the second quarter of 1997 when the results of several important large-scale clinical trials are scheduled to be made public.

Two companies awaiting final verdicts on their drugs are California's Amylin and Massachusetts' Autoimmune. Amylin is collaborating with Johnson & Johnson to develop pramlintide, a diabetes treatment drug. Autoimmune has a multiple sclerosis drug. The quoted biotechnology sector is now worth more than $100bn, according to Mr Burrill, thanks to a combination of rising share prices and companies floating on stock markets. But the sector is permanently beset with uncertainties over the outcome of clinical trials. For the feel-good growth over the past 18 months to continue, there must be more good news from drugs in research. For biotech, no news is bad news...and bad news can be a disaster.

Global sales grow – and losses fall

$billion	Public companies			Industry total		
	Current year*	Prior year*	% change	Current year*	Prior year*	% change
Financial						
Sales	8.4	6.8	+25	10.8	[illegible]4	[illegible]
Revenues	11.8	8.7	+29	14.6	12.8	+14
[illegible]	3.7	4.3	+10	7.9	7.6	[illegible]
Net loss	2.2	2.3	-5	4.5	4.7	[illegible]
Industry						
Market capitalisation	[illegible]	47.0	[illegible]24	83.0	52.0	+60
Number of companies	294	260	+13	1,287	1,308	-2
Employees	73,000	60,000	+22	118,000	[illegible]8,000	+9

[illegible] for prior year based on current population of public companies

Source: Ernst & Y[illegible]

IN THIS SURVEY

GLOBAL CUSTODY

End-game nears for consolidation stage

To stay in the race, global custodians each need to invest up to $200m a year. Some have dropped out, others have merged their operations. John Gapper discusses the latest moves

The global custody industry is approaching an end-game in its long process of consolidation. Despite seismic shifts such as the recent decision of Barclays and Morgan Stanley to consider merging their operations, the outline of where the industry is heading can already be seen.

At the head of the pack are the large global custodians, which are willing to make the annual investment running into hundreds of millions of dollars to remain dominant.

Names such as State Street, Chase Manhattan, Bank of New York and Citibank appear determined to lead the industry.

Following in their wake are local providers of sub-custodian services and specialised skills which have carved out a distinctive niche. HSBC and Standard Chartered in Asia, and Paribas in France have regional strengths, while consultants such as the WM Company provide specialist services.

Yet the past year has been as tough as ever on those caught in the middle ground, and obliged to invest heavily to fight for a share of revenues that are ever more tightly squeezed. The exit of J P Morgan last year, and Barclays' recent move, shows how tough many have found it.

"Do you keep on investing $100m or $200m a year to stay in the race? Critical mass has driven this industry, and some people have found it a difficult pill to swallow," says Dick Freehan, Bankers Trust's head of global institutional services in Europe, Middle East and Africa.

"This business can be unforgiving. If you do not keep investing in it, you can quickly fall behind. As soon as one of your competitors stops bringing out new products, it raises questions about their future," says Dan Wywoda, head of global trust and custody for Mellon Trust in Europe.

The shake-out has not only affected global custodians themselves. The largest investment managers in Europe have also started outsourcing custody in an effort to reduce costs. The trend was led in the UK by Prudential Portfolio Managers' outsourcing of its £45bn portfolio earlier this year.

"Some of the bigger organisations are waking up, and saying 'Boy, we have all these people doing things that are not core to our business'," says Mr Wywoda of Mellon Trust, which won the contract to provide custody to Prudential jointly with Midland Bank, the UK subsidiary of HSBC.

The primary driving force behind the shake-out has been the squeeze in fees both on basic custody, and on the ancillary services in which custodians specialise. Basic custody has become so commoditised that it attracts fees of less than one basis point of assets in the developed markets.

This has meant an increasing emphasis on scale to make returns on custody acceptable. While custodians used to seek businesses with hundreds of billions of dollars in assets, the minimum acceptable size for a full-service global custodian has come to be measured in trillions.

Custodians are still crossing their fingers that the pricing pressure has eased, and they may be able even to raise prices marginally over the next year or two. Mr Freehan of Bankers Trust says custodians used to believe they could raise demand by lowering prices, but have been proved wrong.

"As we move towards an oligopoly in the industry, people are starting to realise that the days of charging low and piling high are over," he says.

Maureen Bluedorn, executive vice-president for global securities processing at Bank of New York, predicts that pricing levels will fall over the next year or two. "I think it is going to bottom out. You can see that trend in one or two proposals, but it will take time," she says.

"If prices fall a little more, that is not going to affect us. It will just force out more of the smaller players," she says.

The fact that words like "oligopoly" – and even "cartel" in private – are now used to describe the industry has caused some doubts among customers. Sandy Jaffee, Citibank's worldwide securities services division executive, says that customers are thinking of things other than price.

"So many custodians are getting out that all of a sudden the reflective client is saying 'I do not want to be left with just one provider'," Ms Jaffee says. Price pressure is lessening because customers "want to be sure a provider is going to be there in five years".

Nonetheless, the over-riding challenge for the industry is to find new sources of revenue to balance the investment requirement. Some hope that these will come from emerging markets, where vast savings pools are being created, and investment managers will have growing requirements for custody.

Paul Maloy, Chase's business executive for global investor services in the European region and Asia, says that emerging markets will be a key part of the business. "So many investment managers are looking at India and China, and do not want to take a risk on local providers," he says.

The alternative is to deepen the business done with existing customers in developed markets. Custodians have attempted to supplement revenue from basic custody with other services, notably securities lending. Much effort has been spent recently in developing information-related services.

In one sense, custodians are pushing on an open door in attempting to provide integrated real-time data for investment managers. The benefits range from reducing operational risks to allowing them to manage their assets more effectively, for example by telling them how much cash they have.

Ms Jaffee of Citibank says that "our customers' information needs are growing unabated". She says that investment managers increasingly want immediate access to information about portfolios, particularly about valuation, and the measurement of investment performance against benchmarks.

"Look at what has happened in some emerging markets. Market volatility drives the clients' need for information," Ms Jaffee says.

Yet custodians are not the only ones seeking to provide what have been dubbed "middle office" services such as performance measurement. The danger is that they will lose such business to consulting firms such as Frank Russell, while keeping the lower-margin safe-keeping side of the business.

Mellon is one of the US houses that has emphasised its role as an "information warehouse", capable of handling middle as well as back office functions. In the Prudential contracts, Mellon has the role of handling information flows, while Midland provides the custody.

Mr Wywoda of Mellon Trust says that although consultants and software houses will play a role in information services, custodians have some key advantages. "If you are handling transactions, it is easy to link that information into accounting and performance measurement," he says.

Given such potential to dominate revenues, some observers believe that a number of banks has acted precipitately in exiting from the business at the low point in the revenue cycle. Simon Thomas, of the London-based consultants Thomas Murray, says that some may regret their actions.

"Very few bankers in the world appreciate the future potential revenue from the business. If you are a bank and you want to gain from the growth in global capital flows, this is a major opportunity," he says.

Nonetheless, things are not always simple for those who remain in the business. Not only are there risks attached to constant investment – "the cutting edge can be the bleeding edge," says one custodian – but the industry is still awaiting its first catastrophic operational loss.

Despite the Maxwell scandal in Britain, and losses on securities lending in the US, the risks of custody are seen by regulators and others as relatively low compared with activities such as lending. There are no capital requirements for custodian banks related to assets held in custody.

That could change if a custodian makes a crucial mistake in handling a customer's assets at a time of market volatility. Mr Freehan of Bankers Trust recalls one BT manager who, after seeing exactly what custodians did, replied: "This seems to be an insurance business with zero premiums."

Furthermore, the strategy of expansion by acquisition on which most of the larger players are now set carries its own difficulties. Not all customers are happy simply to be handed over. Bank of New York's competitors say that it suffered significant attrition from J P Morgan's customer base.

Ms Bluedorn says that Bank of New York has "had our share of wins and losses" since the J P Morgan acquisition. However, she says that the 18-month process of integrating the two banks' systems and operations has required a great deal of work, and "planning and attention to detail".

These challenges are becoming greater as the global custody industry approaches the culmination of the phase of consolidation over the past years. The most significant challenge for those who have fought their way to the front will be to ensure that the industry remains relevant.

As technology becomes more sophisticated, the danger is that barriers to entry to choicer parts of the business – information and ancillary services in particular – will lower.

For global custodians who have spent their way to a place at the top table, that would be an unwelcome reward.

IN THIS SURVEY

■ **United States** • by Tracy Corrigan

Focus is on development

Pharmaceutical companies are increasingly forming biotech alliances

There are signs that the US biotechnology industry is starting to grow up. Ten years ago, doom-mongers predicted that most of the rash of start-up biotech companies would go under. This has not happened. Neither, though, have the wildest optimists, who saw biotech companies as the pharmaceutical giants of the 21st century, been vindicated.

There are a couple of exceptions, such as Genentech and American General, which are now widely viewed as the peers of the big pharmaceuticals companies. But most biotech companies remain focused on the development rather than the sale of new treatments, usually through research into molecular biology and genetics, relying for their survival on licensing these drugs to the big pharmaceuticals companies, or developing them in partnership.

Many new companies were set up in the late 1980s, and biotech companies usually take about five years to go public and another five or so years to become profitable. Of the roughly 300 publicly-listed biotech companies in the US, around 18 per cent are now profitable, according to Steven Burrill, of Burrill & Craves, a specialist biotech investment bank based in San Francisco. In fact, few companies actually go under. But that is because most companies which are failing are bought out or recapitalised.

Public companies in the industry are still losing just over $2bn a year, according to Mr Burrill. But the improved access to financing due to the strength of the US IPO (initial public offerings) market in the past two years has allowed many companies to establish a sound financial footing, at least in the medium-term.

Access to the IPO market has brought "a new era of stability", even for those companies which are not yet making money, says Mr Carl Feldbaum, president of the Biotechnology Industry Organisation (Bio). According to a survey by Ernst & Young, 24 per cent of public companies now have enough cash to survive for at least five years; a year ago, only 17 per cent could look that far ahead.

But the biotech sector of the US stock market fell sharply in the summer, after an extremely strong performance in 1995, and this has taken some of the gloss off the IPO market in recent months. Furthermore, some investment bankers say that the best deals have already been done. In the first six months of the year, 62 biotech companies raised over $1.7bn. But the third-quarter weakness in high-tech stocks took its toll, and capital raised through IPOs dropped from around $300m in June to $52m in July.

Still, as the increase in the number of companies making money suggests, there is a positive trend at work. One element is that the number of products in late-stage clinical trials is reaching critical mass. The other is that the length of time needed to gain regulatory approval has shortened. The US Food and Drug Administration's regulatory reform has led to swifter approvals for Aids treatments and HIV tests, an area in which biotech research has had some notable success.

These and other recent successes have certainly attracted the attention of the pharmaceuticals companies, but aquisitions remain rare. Most analysts believe that Roche's large stake in Genentech, for example, will not set the pattern for the industry. But the pharmaceuticals industry is providing broad support for the industry through partnering. Some partnerships have failed, but given the volatile nature of research and its pay-off, this is hardly surprising. More tellingly, new alliances are being forged.

"The large pharmaceuticals companies are now committed to working with biotech companies," says Carl Gordon, a biotech analyst at Mehta & Isaly.

Big companies such as Eli Lilly are increasing their spending on biotech. But they prefer to spend money on a number of partnerships with various US biotech companies. Analysts say this has several advantages.

First, it allows them to reap potential benefits from a broader range of research. Furthermore, the companies already have vast research departments, and do not particularly want to add to those overheads. Also, they may like to be involved in the more entrepreneurial research departments of biotech companies.

"Both the big pharmaceutical companies and the small biotech companies like multiple alliances," says Mr Gordon.

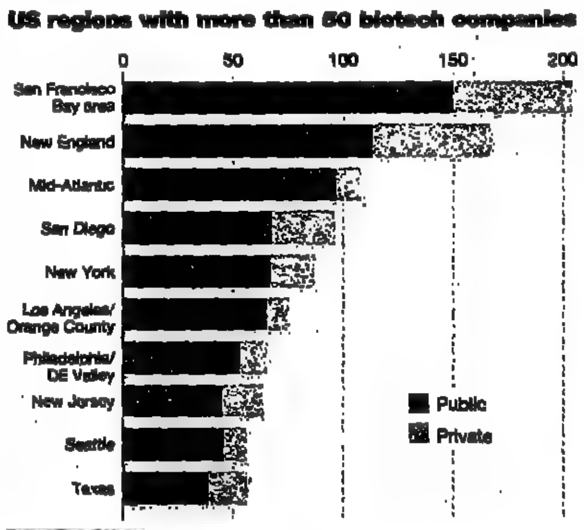
The culture at biotech companies is markedly different from most corporate culture. Many are still described as "Mom and Pop operations", though in many cases, as one analyst said, "Mom and Pop both have ponytails". Most companies are set up close to university research departments, mostly in the north-east and south-west, and have a more laid-back culture than other more conventional companies. One boardroom keeps a bowl of tomatoes on the table... for pelting any speaker who starts showing signs of pomposity.

Pharmaceutical companies have another reason for their interest in the biotech sector. Their margins have been under pressure, partly as a result of the increased control over drugs prices exerted by managed healthcare companies in the US, such as health maintenance organisations (HMOs). So they are particularly keen to find innovative ways of increasing revenues.

The performance of the biotech sector has been disappointing this year. The Mehta & Isaly Rising Stars Index of 100 mainly US biotech stocks is up just 3.2 per cent for the first 10 months of this year, substantially under-performing the broader US market. Last year, it rose 78 per cent.

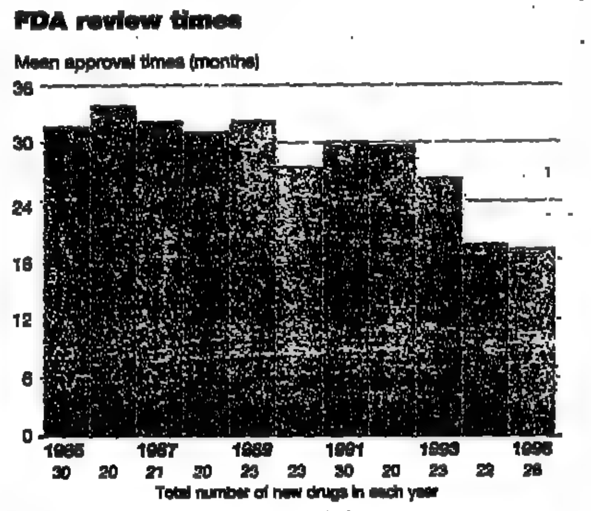
But the market capitalisation of the sector, at around $77bn, is still more than 60 per cent up on the previous year. The pace of the growth may slow as the IPO market tails off, butwith new biotech products coming on stream, there is plenty of scope for increased earnings and spending on research.

US regions with more than 50 biotech companies



Source: Ernst & Young

FDA review times



Note: A six-month review time is the statutory standard
Source: US Food and Drug Administration

■ **France** • by David Buchan

New market, new opportunities

With so few companies, the French trail their neighbours

"It's warming up", says Denis Lucquin, a partner at Sofinnova, one of France's few venture capital firms active in funding biotechnology.

He cites the new opportunities offered by this year's creation of the Nouveau Marché in Paris, the Easdaq (European Association Security Dealer Automatic Quotation) system as well as this year's decision by the state-owned Caisse des Depôts to set up a FFr400m risk capital fund. "These new opportunities and funds are also encouraging old investors to come back into the market," Mr Lucquin says.

But there is still a mismatch between France's high level of fundamental, government-backed research into biotech and the relatively paltry number of specialist biotech companies in the country – estimated at 40 to 50, far behind the UK and now behind Germany. Part of the problem, says Mr Bernard Daugeras, of Finovelec, another venture capital fund, is that privileged access to public research in France tends to be limited to a few big industrial groups. For instance, the French government's BioAvenir is a joint venture with the Rhône Poulenc group.

According to Ernst & Young's 1996 survey of European biotechnology, while "France is home to some of Europe's most established entrepreneurial bioscience firms such as BioMérieux Alliance, Chemunex, Genset, and Transgene, many of France's dedicated biotech companies are little more than small contract research houses unable to develop major products because they do not have the financial foundations to afford expensive, long-term R&D, and thus focus on short-term goals".

France's relatively strong scientific base and relatively weak entrepreneurial tradition has often perversely resulted in a brain drain of the country's top bioscientists to the US and a counter-flow of US or UK biotech managers and investors to France. But there are new signs of a coming together of the public and private sectors inside France.

A striking example was this year's decision by Professor Daniel Cohen, director of the Centre d'Etudes du Polymorphisme Humain (CEPH) since its foundation in 1982 by Nobel prize winner Jean Dausset, to join Genset, the privately-financed French biotech company. Prof Cohen is to take his team of 25 gene-mapping scientists with him; in return, the CEPH is to receive Genset stock options.

Founded in 1989 by Pascal Brandys, a venture capitalist, and Marc Vasseur, a molecular biologist, Genset now has more than 130 employees, a fully automated sequencing laboratory in the Paris suburb of Evry, and has this year launched itself on the Nouveau Marché in Paris and on the US Nasdaq exchange. It has also this year formed partnerships with Synthelabo, the French pharmaceutical company, to make drugs for prostate cancer, and with Johnson & Johnson of the US to research into genes associated with schizophrenia.

This year has also seen new private French and foreign financing for a smaller company, Biovector Therapeutics, of Toulouse. Also founded in 1989, based on drug targeting technology acquired from France's National Centre for Scientific Research, Biovector has since raised $24m, enough to keep it going until 1998, when it hopes to go to a public stock market. Two of its products – a nasal influenza vaccine and an ovarian cancer imaging agent – are due to reach the stage of clinical trials next year.

One of the biggest and oldest French companies is the Strasbourg-based Transgene, founded in 1980 and now with 190 employees. Having spent the 1980s as a contract research concern to the pharmaceutical industry and to public disease research organisations, Transgene decided four years ago to narrow its broad interest in gene technology and to develop specific products for gene therapy in combatting cystic fibrosis, cancer and Aids. Investors liked the approach, and provided Transgene with FFr250m in 1994, of which nearly two-thirds is still on hand. It has the structural advantage of having BioMérieux Alliance and Rhône Poulenc as shareholders.

In contrast to the financial environment, France provides a relatively friendly political environment for biotech. Ciba, the Swiss pharmaceutical group, has exploited this in two ways – moving its pharmaceutical-related biotech R&D division from Basel across the French border to Mulhouse in order to sidestep the objections of Swiss greens, and seeking French government sponsorship to try to get its genetically-modified maize approved by the European Union (EU).

"We chose France as the door to the EU market," says Philippe Gay, head of the biotechnology research arms of Ciba Seeds, "because it is the biggest maize producer in Europe."

France cultivates 3m hectares of maize – half of which goes to silage, but the rest is grown for grain, where the pyral caterpillar, equivalent of the US "corn borer," is a pest that costs farmers, on average, about 4 per cent and sometimes as much as 20 to 25 per cent of their crop. The Ciba maize plant contains a protein that kills the pyral larva, which is otherwise difficult to spray because it bores right into the plant.

Ciba has had its modified maize approved in the US, Canada and Japan, but not so far in the EU. The Swiss company's field trials in France won approval in May 1995 from the French government, which transmitted the dossier to the European Commission.

Last spring, the commission's environment division gave Ciba a favourable opinion and sent the dossier onto governments for a decision. It failed, however, to win a majority within the Council of Ministers, because of some abstentions and outright objections from Austria, Sweden, Denmark and the UK. These objections mostly related to the possibility, even though remote, of the release of bacteria used in the Ciba process. Mr Gay remains, however, confident of eventual victory in Brussels.

Ironically, inside France, the Ciba maize now seems to be attracting more support from the environment ministry than from the agriculture ministry, where some senior officials are having second thoughts. Mr Gay puts this down to new-found caution in the agriculture ministry, having been in the front line against the quite unrelated "mad cow" disease, while the environment ministry sees the advantage in avoiding the need to spray adult maize with insecticide.

■ **Germany** • by Sarah Althaus

Public opposition now on the wane

A change in opinion helps to boost a nation's flagging industry

A few years ago, companies such as Biopharm, a small Heidelberg-based biotechnology group researching drugs for the treatment of bone diseases, were scarce in Germany. Indeed, as the biotech revolution swept through the US and UK in the 1980s, tough regulation and ethical controversies prevented it from taking root in Germany.

However, over the past three years, the climate in German biotech has taken a dramatic change for the better and the entrepreneurial sector is now developing rapidly.

The turnround comes amid waning public opposition to the sector and increased government support. Not only have changes in the genetic engineering law helped speed new product approvals, but the federal government has introduced various investment programmes to promote biotech. The most recent programme, "BioRegio", plans investments of Ecu2.4bn over the next five years. Some of the regional states have their own biotech programmes, and venture capital conditions – while still difficult – are improving.

Simon Moroney: 'demand has changed' Picture: Paul-Gerhard Loder

"There's no doubt about it, the overall climate has improved since we set up," says Rolf Bechtold, head of analytical services at Biopharm, founded in 1986. Biopharm has isolated a bone protein, MP52, which it licensed to Hoechst, the German chemicals group, in 1994 to develop a treatment for osteoporosis and other bone disorders.

Germany has still a long way to go. The number of companies involved solely in biotech is tiny compared with the US, and most of them are only at an early stage of development, employ fewer than 50, and are not yet profitable.

But progress has been swift, and accountancy firm Ernst & Young says Germany now has more gene therapy groups than elsewhere in Europe. Newcomers in the last two years include MediGene, a Munich-based therapeutics group for cancer and heart disease; CellGenix, based in Freiburg and specialising in therapies for cardiovascular diseases and secondary cancer; and HepaVec, a Berlin company focusing on therapies for liver cancer.

"Gene therapy is a hot spot of biotechnology," says Jane Fisken, biotech analyst at Dresdner Kleinwort Benson in London. "It will take several years before any products reach the market, but there are great prospects."

In the meantime, Germany's biotech companies have been quick to establish licensing and co-operation deals with the established drugs groups, which are increasingly looking to cut costs by outsourcing research to small, specialised companies.

"Demand has changed over the last 10 years; the big groups are turning to small innovative firms to do the research and the drug discovery phases, and the small groups are increasingly seeing the big groups and not the patient as their customer," says Simon Moroney, chief executive of Morphosys, a Munich-based drugs research company.

Morphosys is researching drugs for cancer by seeking to optimise the properties of proteins and peptides (amino acid compounds), especially as antibodies. One of its main areas of research is in therapies preventing secondary tumours following surgery for colon cancer.

Mr Moroney says the company, set up in 1992, has yet to reach profitability and is "at the transition stage from pure venture capital to real turnover". However, the group is "on the verge of a multi-million dollar, multi-year R&D collaboration with a big US pharmaceuticals group which should bring us to cash neutrality in the next two years", he says.

MediGene, founded in 1994 and also based in Munich, says it hopes to announce a large co-operation deal with a big drugs group later this year. Otherwise, it has a separate profit centre – a DNA analysis arm – which, it says, is already developing "substantial" revenues for the group.

> New businesses are being given some help through state programmes

MediGene's main research activities include diagnostic tools for heart failure and therapies for cervical, skin and ovarian cancer. It is also researching a vaccine for the prevention and treatment of cervical cancer and genital warts.

Within its first year, CellGenix formed a joint venture, Metreon, with Schering to research cell and gene therapies for cancer and cardiovascular disorders. According to Felicia Rosenthal, head of the Freiburg-based group, CellGenix is also "the first European group with an official production licence for human cells".

State programmes are providing new businesses with a helping hand, although often not much beyond the start-up phase. The southern state of Bavaria is rapidly establishing a lead in German biotech, having targeted the sector as one of the recipients of funds from the DM3bn raised from the privatisation of state assets.

Bavaria has set up a risk financing fund, Bayern Kapital, which will invest up to DM3m in each company. This matches funds provided by Technologie-Beteiligungs-Gesellschaft, the federal government's risk financing operation.

"The amounts of soft money that you can get here are unprecedented," says Mr Moroney. Morphosys has now completed its third round of financing, in which each D-Mark of venture capital was matched with two from the state and federal funds.

Baden-Württemberg, North Rhine-Westphalia and Berlin also have biotech activities, while Hesse, where the Green party is dominant, has been less enthusiastic.

However, more active co-operation is needed from venture capitalists. The Netherlands-based Atlas Venture, Techno Venture Management (TVM) in Munich, and Technostart, a Stuttgart-based group, are the only venture capitalists in Germany with a strong biotech interest. The main obstacle has been the relative lack of exit possibilities for investors and the overall risk aversion of the German investment community.

But things are changing on this front, too. Earlier this year, Qiagen, a Düsseldorf-based supplier of products for screening nucleic acids (DNA and RNA), became the first German company to be listed on Nasdaq, the US exchange on which many international high-tech stocks are quoted.

"Qiagen's successful listing was a breakthrough as it helped draw US investors' attention to Germany," says Waldemar Jantz, managing partner at TVM. "Germany showed that it has some interesting investment opportunities in high tech companies."

TVM is setting up its third investment fund for high-tech companies, with about 80 per cent of the expected DM150m to DM200m total to be spent on biotech, largely in Germany. Mr Jantz expects between 25 and 30 per cent of the fund to be subscribed by US investors. Dresdner Kleinwort Benson, the investment bank, is contributing up to DM23m, and Siemens, the German engineering group, is also one of the main investors.

Venture capitalists say they would also welcome a local exit opportunity. Hopes are, therefore, pinned on Easdaq, the recently-formed European exchange modelled on Nasdaq, and the Neuer Markt, the small company market planned by Deutsche Börse, which runs the Frankfurt stock and futures exchanges. Mr Moroney says Morphosys plans to list on Nasdaq, and possibly the Neuer Markt or Easdaq as well, in the next 12 months. MediGene has also mentioned a US listing.

"When you consider the quality of Germany's scientific base, it certainly has the potential to become the European leader in biotech; all it needs now is a few successful listings to prove its worth," says Mr Moroney.

There's biotech - and there's biotech

Some pharmaceuticals industry executive are fond of saying: "There is no biotech industry. We use biotechnology ourselves, and many of the so-called biotech companies do not."

The comment is partly true, and wholly disingenuous. The word biotechnology has two meanings, one scientific and one commercial.

The first and original meaning is that biotechnology is the the use of living material in technology. The material can be anything from bacteria to yeast to sheep.

It was coined to distinguish it from chemistry, the traditional source of new products in pharmaceuticals and agriculture. In this sense, biotechnology is employed by most large pharmaceuticals and agricultural products companies.

In the past two decades, biotechnology has also acquired a commercial meaning: start-up companies trying to develop new drugs, diagnostics or medical devices.

These companies want to compete with bigger and established rivals, but they differ from them in that they are small and have few, if any, sales.

That means that more funding comes from venture capitalists then from stock markets and sometimes through partnerships with bigger companies. Most biotech companies lose money for many years.

It also means that its survival depends on making a success of the inherently risky business of research. That leads employees to work long hours, cut costs, sometimes corners, and often take a rose-tinted view of their prospects.

In the early days – the 1980s – many of these companies tried to turn proteins into drugs and therefore used biotechnology, the science. Today many are based on chemistry or computer science but are still called biotechnology because of their financial structure.

Much has been written about why the biotech industry exists. Why could not the pharmaceuticals industry have done what the biotech sector is doing?

One response is to suggest that the US venture capital industry seduced scientists from academia and the drugs industry with money.

Another is that the pharmaceuticals industry has traditionally done well out of improving existing drugs, spending more on sales and marketing than research and development.

Either way, the biotechnology sector has become a force to be reckoned with. A pharmaceuticals company can employ biotechnology, but that does not make it a biotech company.

Daniel Green

PROFILE State Street Bank

Specialisation brings rewards

The bank is now No 3 in the US and has $2,700bn in assets under custody

The phenomenal success in the past two decades of US mutual funds, which now on average take in a net $20bn in assets and dominate the US savings industry, has created many fortunes.

One of the greatest indirect beneficiaries is the State Street Bank, based in Boston. In 1924 it undertook processing for the first US mutual fund (the Massachusetts Investment Trust).

About 50 years later, by which time it was the fourth largest commercial bank in Boston, it decided to focus on mutual fund processing, steadily retreating from traditional commercial banking activities. This proved to be a good decision. From 1980 to the end of last year, the total value of equity and bond assets managed by the US mutual fund industry grew from $58.4bn to $2,067.3bn.

State Street is still the largest processor of US mutual funds. But it has developed from there to be one of the nation's three largest global custodians with $2,700bn in assets under custody. It has offices in 15 other countries, and completes transactions in 72 countries.

It is still based in downtown Boston, near the street which gave the bank its name, and it still maintains a lending business for local medium-sized companies. But most of its branches have been closed, its credit card business has been sold, and the profit-producing heart of State Street is its huge processing centre several miles outside the centre of Boston, in the old industrial town of Quincy.

But its growth has been fuelled by fee income, and it now markets itself as a specialist custodian bank, which has devoted more energy than any of its rivals to enhancing the custody role.

Income from fees, rather than interest, now accounts for about 71 per cent of its total profits, and this figure is likely to grow. This has helped insulate State Street against the swings in the economic cycle that affect most US commercial banks.

It has also buoyed State Street's share price, and the bank hopes its relatively high rating will insulate it against any attempts to include it in the wave of consolidation in the US commercial banking sector.

State Street and the two other big US global custodians, Chase Manhattan and Bank of New York, now have $9,000bn in assets between them. While it has slipped to third in assets under custody, thanks to a series of acquisitions by Bank of New York, it has logged impressive growth in the past year.

Its latest statement of accounts, for the third quarter of this year, show that assets under custody had increased by 30 per cent over the preceding 12 months from $2,100bn in September 1995. Assets under management – mostly in quantitative and index funds originally developed as an adjunct of State Street's custodial accounting systems – had risen by 40 per cent over the same period, from $199bn to $280bn.

The decision to focus on custody came in the wake of US financial services deregulation in the mid-1970s. At this point, according to David Spina, the president and chief operating officer, "it was incumbent on organisations to do a very rigorous self-examination about where they had significant competences which could lead to competitive advantage. We were the fourth largest bank in Boston, but we were clearly not a leader. Where we had a competitive advantage was not so much global custody at that time but in servicing US mutual funds." This, he said, "begat" pension fund servicing, which in turn begat heavy involvement in 401(k) plans (defined contribution pension schemes offered by employers), global custody, and investment management.

The legacy of the early concentration on servicing mutual funds remains readily apparent. State Street still concentrates on fund accounting and analytics, with information technology which is aimed at allowing highly developed analysis by fund managers both of their own portfolios and of the broader markets.

According to Mr Spina: "We like global custody

> The bank decided to focus on mutual fund processing

better when it's coupled with portfolio accounting or analytics of investment performance. A series of services which we have developed in essence build their efficiency on the fact that we already have hard information on our database about the portfolio because we are the custodian."

This is the core of State Street's attempts to stay ahead of its competitors. It has also attempted to protect its lead in the US by offering specialised services for different customers, with systems that accommodate the different insurance regulations for each US state, and the different tax and reporting regimes covering different financial products. For example, there is a big difference between the accounting mechanisms needed by mutual funds, which are required to produce prices daily, and those of pension funds, which face a more lenient reporting regime.

Aggressive investment in technology in the early 1980s was one of the keys to State Street's growth.

Mr Spina believes there are opportunities for further growth, although the focus will increasingly move outside the US, particularly into western Europe where opportunities should arise from pension reforms, and also into the more developed Asian economies. The past year has seen the start of a joint venture with the Unit Trust of India to provide accounting services to the Indian mutual fund industry.

Mr Spina is keen to scotch the notion that State Street's growth will be conditioned by its core business in mutual funds. "It's not clear to us how successful US-based mutual funds have been in penetrating overseas markets. It's important that we establish links directly in those markets" and don't just follow our existing customers outside the US."

John Authers

■ **Outsourcing:** by David Cowan

A marriage of resources

Legal risk and credit issues aside, the case for outsourcing seems convincing

Roger Fishwick: Prudential's custody assets worth [illegible]

John O'Driscoll: 'outsourcing isn't for everyone'

Badging, private labelling, outsourcing, call it what you will, global custodians are convinced the practice of farming out custody services is here to stay. Of course, one could ask if this is a view accepted uncritically, only to be later on dropped as fashion changes, leaving a lot of technological egg on custodial faces.

A few years back the big debate was private labelling, a technological sleight of hand whereby the one outsourcing "badged" the service as its own but actually it was farmed out. Outsourcing is more open, in that it is publicly acknowledged that the back office is elsewhere. Today, the private labelling debate is no more, and now we are on to the latest wheeze of outsourcing.

The danger as far as fund managers, and others considering the outsource conundrum, are concerned, is that there has to be a realisation that in doing this they are committing themselves to a marriage of resources, and the divorce, if it should come to pass, is going to be none too easy.

If the relationship with the outsource deteriorates or changes, then the fund manager is left to decide either to shift the outsourcing to another custodian, or take it back in house, the latter probably more fraught with difficulty than the former.

David Watson, director of marketing and business development at Lloyds Bank Securities Services, agrees. "Once you've made the decision it's difficult to undo it again," he says.

John O'Driscoll, senior vice-president and area head for Europe at Mellon Trust, explains: "Outsourcing isn't for everyone. What you have to decide is whether custody is core to your overall service; if it is then you shouldn't outsource, if it is not then perhaps you should. Fund managers are keeping to their core business, and that determines whether they outsource or not."

One milestone was the outsourcing by Prudential Portfolio Managers, a subsidiary of Prudential Assurance, jointly to Mellon Trust and Midland Bank. Mr O'Driscoll suggests that this is not part of a continuing strategy to work with Midland, rather that it was an exceptional contract, and it is difficult to generalise on how outsourcing deals are struck, every deal being different.

Different deals lead to the parcelling out of various aspects of the operation, and outsourcing custody may be regarded as a stepping stone to outsourcing the entire back office. What the custody banks aim to provide is a lot of value to the operational life of the institution doing the outsourcing.

Mr O'Driscoll says: "We focus on the value added, the analytics and performance measurement areas. We're not in the business of being the cheapest provider, but we add value to help our clients to be more successful. Part of the skill of our success will be how accurate our vision of the future will be."

There is a credit issue involved and the bank taking on the outsourcing may also be absorbing, to a significant extent, the counterparty credit risk. This is best expressed by Roger Fishwick at Prudential, who tells a story of how a custodian capitalised at $50bn called him offering to take on his custody, to which he replied: "We have $80bn of assets, why don't we do your custody?"

The reason behind outsourcing is based on the technical investment and flexibility offered by those willing to take your business and keep it smoothly ticking over. The specific trends driving outsourcing are increased technology costs and increased competition. The reasons to outsource being the convenience, best practice issues and cost. But is asset size an issue?

"No," argues Mr Watson. "The decision to outsource is based more on culture than the asset size. It depends on the structure of the organisation. Size is a factor but it is not the determinant. He has to decide how he wants to do his business."

Mr Watson elaborates: "Outsourcing is going to be a continuing trend. As the demand for return on capital increases, the fund manager will want to focus on core strengths. The trend towards outsourcing middle office operations will also continue as the core business becomes more competitive, thus driving the business up the value chain."

Post-Maxwell, Barings and other mishaps in the markets, fund managers are increasingly aware of the legal issues at stake. In one sense, the operational area could be simply said to be one of a legal transfer and monitoring of ownership. The one taking on the outsource is taking on board the legal risk issues as part of the package. Perhaps fund managers, facing increasing legal and regulatory challenges, will then rue the day they outsourced, because they leave themselves at one remove from compliance issues.

Mr O'Driscoll responds: "In some respects you could argue the other way. As the rule book gets bigger, one comfort might be working with a first class firm used to working with the regulatory regime. This is clearly a very important aspect of the work we are doing."

Legal risk and credit issues aside, the business case for outsourcing appears convincing, and with more institutional investors coming to the fore there seems plenty of business for custodians waving the outsourcing flag to chase.

Venture capital • by Mike Ward

Heads are being turned in Europe

Investors used to look chiefly at the US and UK, but now there are other attractions

Europe is experiencing a life sciences gold rush. While the public equity market for European biotech may have gone off the boil in recent months, there is plenty of interest from private equity sources. The European entrepreneurial bioscience sector now has some 600-plus companies, and that number is growing weekly.

Investors are particularly interested in getting in as early as possible to take full advantage of the potential upturn in a company's worth.

A recent study commissioned by Merlin Ventures, the new British seed capital and management company established by biotech entrepreneurs Chris Evans, Peter Keen and John Morris, identified that the average internal rate of return (IRR) from the first round of financing for publicly-quoted UK entrepreneurial bioscience companies was 77 per cent a year. With venture capitalists usually looking for IRRs of 30 per cent a year, it is little wonder that their heads are being turned by the burgeoning European biotech sector.

Celsis, the industrial diagnostics company founded by Mr Evans, gave the best internal return on investment to early backers, while another Evans company, Chiroscience, finished third.

Mr Evans is now looking to repeat his success and boost Britain's position in global biotech through Merlin Ventures and the recently-established Merlin Fund. Merlin Ventures will identify at an early stage leading-edge UK bioscience, co-found companies based on the core technologies, and provide seed funding and management support until the companies are in a position to go for a first round of institutional funding.

"We intend to create value for UK Plc by building businesses underpinned by the British science base," says Mr Keen. "And it is our intention to put together and incubate eight to 10 new companies a year."

Merlin has already co-founded its first new venture – the cancer therapeutics development company Cyclacel – in collaboration with Cancer Research Campaign Technology, the commercial arm of the UK cancer charity. It is now constructing a second company, which involves putting six different technologies under one roof.

The Merlin Fund founders are currently attracting investors to the unquoted Jersey-based limited partnership. While 85 per cent of the potential sources of equity in London are not allowed to invest in unquoted stocks, Mr Keen says that potential investors have shown enthusiasm for the concept. In the first instance, some £20m to £30m is expected to be forthcoming, although the fund has a cap of £50m. Mr Keen expects the fund to close its first round of financing shortly.

While the majority of biotech start-ups to be financed by the Merlin Fund will have been co-founded and seeded by Merlin Ventures, the fund will consider other opportunities.

The creation of new companies with managers that have already been round the block once – or in Mr Evans' case, a few times – is an attractive proposition for many venture backers. Indeed, for Patrick Sheehan, local director of emerging businesses at 3i, this heady mix of entrepreneurial business skills and ground-breaking science is now *de rigueur* if an investment is to be made.

Mr Sheehan says he is optimistic that the perceived lack of experienced management will soon not be a problem as the sector recycles its entrepreneurs. Having already invested in 50 British life science companies it is a testament to the UK's science base that he expects 3i to continue to invest.

Some of the funds, however, will be heading for continental Europe. "We have invested in European life science firms in the past, but we are beginning to look in the European direction as more and more professionally managed companies emerge."

The emergence of a relatively robust UK bioscience sector and the appearance of new companies in continental Europe is best illustrated by the investment profiles of some of the venture industry's most consistent backers.

Biotechnology Investments (BIL) has seen the geographic spread of its investment portfolio change considerably in the past 10 years. "In 1987, about 90 per cent of our investments were in the US and 10 per cent were in Europe," says Jeremy Curnock Cook, of Rothschild Asset Management, the manager of BIL. "Now Europe accounts for 25 per cent of the investment in listed companies and 40 per cent of the unlisted stocks. There are now worthwhile investments to be made other than in the US."

Recent non-US and non-UK investments include France's BioVector Therapeutics, Ireland's Biotrin International, and Israeli companies Peptor and XTL Biopharmaceuticals.

The success of British entrepreneurs is encouraging other UK scientists to consider taking the business plunge. In collaboration with Johnson & Johnson Development Corp, BIL has established a seed capital business, Healthcare Ventures, to provide financial and managerial support to budding scientific entrepreneurs across Europe.

European bioscience private financing

Company	Amount	Notes
Axis Genetics Cambridge, England	£5.0m	Completed private placement through Hoare Govett Corporate Finance; 3i put in £1.5m
Auda Pharmaceuticals Copenhagen, Denmark	£1.0m	New combichem company receives seed funds from Danish venture capital company DUE
Biotrin Holdings Mount Merriod, Irish Rep	I£3.6m	Diagnostic technology company raises funds. BIL one of the backers
BioVector Therapeutics Labege, France	$13.5m	Oversubscribed mezzanine financing. BIL, 3i and CDC Innovation among new investors. Sofinnova one of existing shareholders
Cerebrus Ascot, England	£2.5m	Neuroscience start-up gets £2.4m from Schroder Ventures International
Core Technologies Kilmarnock, Scotland	£6.9m	Drug delivery technology company raises funds in private placing managed by Merrill Lynch. Rothchild's International Biotechnology Trust makes first non-US investment of £2m
Hexagen Cambridge, England	£4.25m	Mammalian functional genomics company completes first financing round, attracting funds from venture capitalists
IntroGene Rijswijk, The Netherlands	Fl 10m	Gene therapy company completes self-managed private placement which includes new backers such as 3i and GIMV
MediGene Munich, Germany	DM11m	Gene therapy company raises funds in second round from venture capitalists and soft loans from silent partners
Metris Therapeutics Cambridge, England	£0.35m	Female healthcare start-up receives seed funding from Healthcare Ventures, a joint-venture between BIL and Johnson and Johnson Development Corp
Oxford BioMedica Oxford, England	£0.75m	Britain's newest gene therapy company raises funds in pre-flotation placing with institutional and private investors
Oxford GlycoSciences Abingdon, England	$20m	Completed private placement above $15m target. Existing shareholders participate, plus new ones, including Sofinnova
Pharmagene Labs Royston, England	£1.39m	Drug research company focusing on use of human tissue in new medicines raised initial funds from 3i and others
Pharming Leiden, The Netherlands	Fl 37m	Transgenic company raises funds in two tranches
Thallia Aix-en-Provence, France	FFr32m	Formerly known as Heliosynthese
Therexsys Keele, England	£22.5m	Britain's first gene therapy company completes second round of financing

Source: BioBusiness, Oxford Business Publishing

Mr Curnock Cook is now looking very closely at developments in France and Germany where sea changes in government and financial community attitudes are underpinning the emergence of strong prospects. "There has always been money for the biotech companies; it has always been a question of whether that money could be put to good use," he says.

Entrepreneurial bioscience companies based in mainland Europe should soon find it easier to access venture capital. New funds are being created to support early-stage companies, while existing European venture capitalists are now looking to invest in home grown talent rather than just North American and British prospects. The creation of new stock exchanges focusing on high growth high tech stocks is one of the catalysts for this enthusiasm.

The successes of the small number of initial public offerings by continental European bioscience companies in the past year has generated interest both from venture capitalists, who can now see possible profitable exits for their investments, and from scientists wishing to emulate their peers.

For these reasons, French biotechnology may be on the threshold of creating a vital entrepreneurial bioscience sector. The French ministry of research is currently looking at ways to promote a greater market and commercial awareness among its scientists. The flotation of Genset earlier this year – at $99.4m one of the largest initial public offerings by a bioscience company – showed the French scientific and financial communities what was possible.

One of the main factors underpinning the development of US, Canadian and British entrepreneurial bioscience companies has been the availability of public equity. This encouraged venture capitalists to finance the companies because they could see how they would get their returns. But not all biotech company backers are looking for rapid financial returns.

In addition to the likes of Britain's BIL, 3i and Merlin Ventures, there are funds being set up where the backers are working with additional requirements. This is particularly true of two new biotech financing vehicles in Germany, being established by Corange, the parent of the German pharmaceutical group Boehringer Mannheim, and by Bayer, the German chemicals, plastics and life sciences group.

In collaboration with Bayerische Vereinsbank and the Dutch financial group ING, Corange has launched the Global Life Science Limited Partnership. Conceived initially by Corange as a means to provide funding for non-core but nevertheless interesting research from within its group, the scope of the fund has been broadened to consider projects from other sources.

As the name suggests, the fund will have a global focus. In the first round, which closed early last month, the three founding partners each subscribed DM25m and there are plans to add to this DM50m in a second round set to close by July 1997.

New technologies • by Clive Cookson

Tracing the way ahead

Fresh sciences give opportunities for reducing costs and cutting trial times

Three new technologies are coming together to transform research in the biotechnology and pharmaceutical industries: genomics, combinatorial chemistry, and high-throughput screening. And underlying all three is informatics, the application of computing power to biological and chemical information.

Genomics, the study of genes and the way they work together, provides a huge range of new biological targets for drug discovery. Combinatorial chemistry enables researchers to make vast numbers of new chemical compounds as drug candidates.

High-throughput screening brings chemistry and genomics together. Robotic equipment tests the candidates rapidly against the targets. Compounds that show biological activity can then be developed further – for example by using a molecular design computer to adjust their structure.

There are two broad reasons why companies are investing in these technologies. Firstly, they hope to generate better treatments for diseases for which current drugs are ineffective and/or afflicted with serious side-effects. Secondly, they want to cut the costs and time taken to produce potential drugs for clinical trials.

In order to remain competitive, all the integrated drug companies have had to built up expertise in all three technologies – both in-house and through webs of alliances with specialist biotech companies and academic research groups.

The three technologies form a "value chain": genomics companies are most valuable, followed by combinatorial chemistry companies and then screening specialists.

Information about the 100,000 human genes is the most expensive to obtain, has the greatest scarcity value, and is most useful for drug discovery. Biotech companies focusing on genomics include Human Genome Sciences, Millennium, Sequana, Incyte, Myriad, Lynx and Genset.

Best known is Human Genome Sciences, based in Maryland, which formed a far-reaching partnership with SmithKline Beecham, the Anglo-American pharmaceutical giant, in 1993. This has thrown up far more genomic information than the original partners can use themselves – even though George Poste, SB's head of R&D, says almost all his company's new drugs will be based on the HGS alliance – so it has been extended to take in four more drug companies: Schering Plough of the US, Merck of Germany, Synthelabo of France and Takeda of Japan.

Each gene codes for a protein and, if the protein is one that is secreted into the bloodstream, it may turn out to be a useful drug. Examples of protein drugs include insulin, growth hormone, interferons, erythropoietin (to stimulate the production of red blood cells) and tPA (to dissolve blood clots).

Genetics Institute, based in Massachusetts, recently announced a collaboration with two prominent Californian biotech companies, Chiron and Genentech, to identify and characterise the functions of "secreted proteins". GI says its DiscoverEase technology has already identified genes for 5,000 secreted proteins.

But scientists estimate that, altogether, only about 10 per cent of the 100,000 human proteins are secreted – and therefore are potentially useful as drugs. The remainder are an integral part of cells in our body.

In any case, proteins have severe limitations as drugs. For instance, most proteins are large and unwieldy molecules that have to be injected into the patient. (Despite the efforts of the "drug delivery" industry, there is still no good technology for packaging proteins in such a way that patients can take them by mouth.)

The majority of useful drugs are, and will continue to be, synthetic "small molecules" that interfere with the operation of proteins, for example by inhibiting the action of an over-active enzyme. The potential number of atomic combinations that might produce a useful small molecule drug is virtually infinite – which is where combinatorial chemistry comes in.

Although the approach has its roots in the 1980s, combinatorial chemistry only emerged five years ago as a recognised technology. Its principle is to combine molecular building blocks into "chemical libraries" of many thousands or even millions of new compounds, generating a previously unimaginable chemical diversity.

The combinatorial philosophy is to carry out chemical reactions in parallel, producing very small quantities of a very large number of compounds for further testing and development. This is a complete contrast to traditional synthetic chemistry, which makes a series of compounds one at a time.

The most common way of carrying out combinatorial chemistry is to use microscopic plastic or resin beads as an anchor, both for the growing chemical compounds and for the tagging molecules required to record the sequence of reactions undergone by each compound. After every step, the beads are pooled and divided between a number of flasks – increasing exponentially the number of compounds synthesised.

But new combinatorial techniques are being developed all the time. For instance chemists at the UK research centre of Pfizer, the US pharmaceutical group, now sandwich the resin beads between porous sheets of polypropylene. This makes it far easier to keep track and separate them than if they are loose in reaction vessels.

Many small companies are specialising in helping pharmaceutical and biotechnology groups to automate combinatorial chemistry and link it to high-throughput screening. For example, The Technology Partnership, a UK consultancy based near Cambridge, has a consortium of drug companies – including Merck of the US, Pfizer, Takeda, BASF, Ciba, SmithKline Beecham and Chiroscience – using its Myriad automated synthesis system.

Another UK example is Chemical Design, an Oxfordshire-based company that floated on the Alternative Investment Market this year. It has moved from molecular modelling to specialise in developing and supplying software for combinatorial chemistry.

The mainstream computer industry is also beginning to move into combinatorial chemistry. This month Silicon Graphics got together with Tripos, a US chemical information company, to create SpaceCrunch, "the world's largest chemical database" with 150bn compounds. The idea is to give pharmaceutical researchers more candidates for their combinatorial libraries.

■ **Profitability:** by George Graham

Fractional fees bring cheer

After the shake-out, the big custodians are expanding their services

After a period in which basic custody fees have been falling by as much as 15 per cent a year, a string of banks, ranging from J P Morgan in the US to Barclays Bank in the UK, has taken a close look at the economics of global custody and chosen to leave the business.

But despite measuring their basic safekeeping income in fractions of basis points, the few leading custodians that have survived the shake-out of the last year are looking remarkably cheerful.

The biggest global custodians, banks such as State Street Bank, Citibank, Bank of New York or Chase Manhattan, have developed the sort of securities processing powerhouses that have enabled them to keep driving costs down as fast as fees.

Increasingly, too, the leading custodians have been able to expand their range of services far beyond the standard task of keeping securities in safety, generating new revenues by increasing, speeding up and tailoring the information they can provide to investors.

Even in basic custody, some of those who have chosen to remain in or expand in the business see good growth prospects.

"First of all, there is an opportunity to gain profitability strictly on the fee-driven business of custody," said Maureen Bluedorn of Bank of New York, who joined the fast-growing custodian when it took over J P Morgan's global custody operations.

Standard fees for custody in the US are now typically no more than a quarter or one fifth 5 of a basis point, measured on the size of the portfolio, though that can vary depending on the number of fund managers used and the type of asset.

Fees in other developed markets can also be measured in fractions of a basis point, although some notionally developed economies still have very slow paper-based securities settlement procedures, which adds to costs. That includes Japan and the UK, although the introduction of the Crest electronic settlement system in London is expected to improve that.

On top of these basic fees, custodians can earn some additional income on the investment of cash balances.

But fund managers are increasingly investing outside their home territories, and that increases the level of their demands on their global custodians. In some emerging markets, fees can be 40 to 60 basis points.

Citibank, which does its own administration in most countries rather than relying on local sub-custodians, sees this as an attractive business.

"In some emerging markets there are significant margins, and we obviously have those profit margins in-house," said James Economides, managing director for global custody at Citibank. But emerging markets can also be much more costly to operate in, and involve much greater risks. Not all custodians are sure that they are fully compensated for this.

"The cost differentials of operating in some of the emerging markets versus some of the developed markets are probably on the order of seven or eight to one, where the pricing mechanisms may not give you quite that wide a spread," said David Spina, president and chief operating officer of State Street. Increasingly, however, institutional investors are willing to pay for more than these basic custody services.

Mr Spina says State Street's 100 largest clients use an average of 5.2 different services – up from 4.8 a year ago. Some of the biggest, such as Calpers, the California state pension fund, will use a dozen different services.

Increasingly, institutions are asking their custodians also to perform a compliance role, monitoring derivatives investments, for example, to ensure that they are not unwittingly gearing their funds, or checking that sub-managers stay within their investment guidelines.

"Historically, custodians dealt in the post-trade world, in settlement, accounting and analytics. Meanwhile, the investment manager's operations had significantly other information needs pre-trade. We are finding ways of avoiding data duplication," Mr Spina said.

Mr Economides insists that custodians are not simply swallowing sub-cost fees on basic custody to reap profits on these higher margin value-added services. "It's not cross-subsidisation. A better analogy is that rather than just selling somebody a car, you're inducing them to buy an air-conditioning system as well."

Maureen Bluedorn: good growth prospects in basic custody

A modest but increasing revenue stream for many global custodians comes from stock lending. The custodian advances a customer's securities to a trader and invests the collateral received in exchange, hoping to create a spread over the yield of the original security.

If that increases the yield on a portfolio by 50 to 75 basis points, it could mean millions of dollars of additional income and make the difference for a fund manager between second and first quartile investment performance.

The spread is split between the custodian and the institution, usually 60:40 or 70:30 in the customer's favour – though Mr Spina says he would prefer to manage stock lending on an agency basis, acting as a "toll-taker" rather than splitting the spread.

Bank of New York and State Street have traditionally been leaders in stock lending, though Chase's merger with Chemical Bank has brought it an added expertise in the field.

But stock lending is not a risk-free business, as Mellon found two years ago when it had to take a $130m charge to cover losses of customers in its stock lending business.

Value added services require heavy investment if the custodian is to keep up with clients' demands. Global custodians are faced with massive spending on information technology both to keep their unit costs on a downward path that keeps pace with falling fees, and to provide new types of information more quickly to investors. Pension funds which once were happy with a quarterly print-out may now demand daily statements available on automated voice response for individual employees.

At State Street, for example, that means spending 8 per cent of revenues on new systems every year. Many of the large banks which have decided to bow out of custody have done so because they recognised that they were faced with a massive upgrade to their systems.

As the very largest operators get larger, they can amortise their software development costs over a larger base, and so increase their edge over smaller fish.

With critical mass no longer measured in hundreds of billions of dollars worth of assets but in trillions, that means that the coming years will see more banks taking another look at the economics of custody. Many of them are likely to conclude that it is time to leave.

■ **Crest and UK dematerialisation:** by William Lewis

Delays reinforce doubts

Seven deficiencies that must be addressed are cited in a letter to Crest's management

Recent statements by the CrestCo, the company responsible for the introduction of Crest, the electronic share settlement system, have raised doubts that the system will go live as planned in April.

Crest has been hit by a series of delays that have led to share settlements taking more time than expected. Software and other problems have already resulted in CrestCo postponing until next year the transfer of several large stocks to Crest from Talisman, the paper-based system being phased out. Recently CrestCo produced data to show that the most serious delays had occurred at the end of October, and that changes have been made to speed up settlement, but doubts persist.

CrestCo has disclosed that some processes, including "circles", a process to settle linked transactions at the same time, have been halted to prevent them delaying other transactions, but were being amended to ensure they work better.

Custodians say that they have spent up to £5m each so far implementing Crest and are keen to see its successful completion. "This is a massive project," says Terry McCaughey, director of Midland Securities Services. "You are talking about dematerialising the UK and Irish stock markets in one hit and there are going to be problems from time to time. But at the end of the day we will be better off in terms of efficiency," he says.

Iain Saville, chief executive of CrestCo, recently warned stockbroking firms causing delays within Crest that they could face restrictions from regulators on the amount of business they conduct. The Stock Exchange and the Securities and Futures Authority have been visiting all 243 firms participating in Crest to see how well they are coping. CrestCo has suggested that many of the worst performing firms are smaller private client brokers who have used off-the-shelf software to link with Crest.

However, the settlement managers of several leading investment banks have also targeted custodians, and there have been calls for a delay in the full transition to the new system. The settlement committee of the London Investment Banking Association (Liba) has also called on CrestCo, which is owned by 60 financial institutions, to agree to a minimum standard contract to end the difficulties. Kleinwort Benson, owned by Dresdner Bank, is thought to be seeking compensation from other participants in the system, including custodians, which it believes have caused delays.

Mr Saville has responded to the complaints of the Liba settlements committee by saying that he would be willing to consider signing a minimum standard agreement when Crest was fully operational, but not before.

In a recent letter to Mr Saville, the Liba settlements committee cited seven "deficiencies" that managers believe must be addressed urgently. It also cast doubt on whether the Crest system will be able to handle the strain that settling trades in all publicly quoted companies will impose.

Iain Saville: a warning for stockbroking firms

"We have identified a number of deficiencies in the Crest system which we believe must be addressed to enable Crest to handle any increase in volume," the letter said. "The fact that these problems have emerged at such low volume levels suggest that there is a need to re-examine the assumptions made about the usage of the Crest system – both in terms of overall volumes and the pattern of use – and to reassess capacity requirements."

The Liba committee letter also listed a number of participants in Crest, including custodians, whose performance has been "poor".

In response, both custodians and CrestCo argue that the problems should be viewed as temporary and that once Crest is fully implemented it will greatly improve the efficiency of the settlement system. With most other stock markets, in the developed world and in emerging markets, ahead of the UK in introducing so-called dematerialisation, custodians argue that there is no turning back from Crest.

Most remain optimistic about Crest eventually being the platform for a significant expansion of their business opportunities. Some draw a parallel with developments in the US after stock certificates were immobilised, or kept in a central depository as a compromise measure falling short of complete electronic dematerialisation. Several US custodian banks have since expanded into trade reporting, foreign currency control and performance measurement.

In contrast, Taurus, the Stock Exchange's electronic settlement system which was abandoned two years ago, was a worrying development for custodians. Many of the big fund managers were planning to be their own account controllers and would have taken many processes in-house.

Crest has led to fund managers, many of whom have offered in-house custody to pension fund clients in the past, thinking about outsourcing. In January, Prudential Portfolio Managers, the investment arm of Prudential Corporation, awarded the contract for the global custody of £45bn of assets to Mellon Trust and Midland Securities Services. Midland is providing global custody for all assests outside the US, and Mellon Trust, part of Mellon Bank, will act as custodian within the US, including safe keeping, trade settlement and the collection of dividends.

Andrew Brookes of CrestCo details several advantages that the new system will bring. He says that taking paper transfers out of the system will "significantly reduce the likelihood of fraud".

"Those not holding assets in dematerialised form will find it extremely difficult to benefit from the shorter settlement cycle," he says.

Custodians, Mr Brookes says, should not be concerned. They "have an upfront cost which should yield them financial benefits in the future. They are used to spending heavily on information technology and eventually should yield a financial return on what they are doing in Crest compared with paper processing".

PROFILE Deutsche Bank

Focus on quality

Germany's largest bank regards itself as the domestic market leader in global custody


Deutsche Bank: one of the world's largest custodians

For much of its 125-year history Deutsche Bank was a reluctant custodian, holding clients' securities and exercising the voting rights on their equities without turning that chore into a worthwhile business. Then the bank's management realised the enormous business potential of custody and from a standing start five years ago, Deutsche Bank has become one of the largest providers of local and global custodial services.

Deutsche Bank did not reveal the size of its custody business until two months ago. Total cross-border assets of $457bn under custody put Deutsche Bank in fourth place worldwide after Chase Manhattan Bank, Citibank and the Bank of New York. The bank's client base includes 2,600 institutional investors.

More significantly, Deutsche Bank's global custody business is now making a profit, as are "almost all" of its 24 local custody operations, according to Peter Grafunder, global head of international custody services.

Germany's largest bank already regards itself as the domestic market leader. Together with its closest domestic rival Dresdner Bank, the bank estimates that the two banks combined have an 85 per cent share of cross-border international business in D-Mark securities, But Mr Grafunder argues that local markets, however large, will lose their significance once the European single currency has been introduced.

"Investors will want only one cash account, so cash management will be far easier than it is today as long as someone in Europe can offer the right euro-custody product."

Deutsche's strategy is based on twinning local custody operations with global expertise. While local knowledge was traditionally enough to satisfy the majority of clients, who do business in just one market, says Mr Grafunder, custodians will in future need global expertise too to serve the growing number of clients who hold assets in various currencies.

"Custody practice is changing as asset allocation becomes more international. Under the Hausbank system (where customers dealt with one bank in each market) there was no concept of global custody. But once clients begin investing in other currencies, they need an independent custodian.

"The big weakness of local providers is that they know the local market excellently, but lack the experience Deutsche Bank has acquired from a range of markets." Mr Grafunder believes that the lack of local expertise in many markets is the reason why a series of competitors, most recently Barclays Bank, have decided to leave the custody business.

Although Mr Grafunder perceives "a desperate need for cost reduction", he will have few opportunities to achieve this. Deutsche Bank is investing hugely in technology to reduce its operations staff and to offer new custody services.

Margins in developed markets such as Germany are low because all custodian banks are capable of offering basic products, and there are few opportunities to offer valued-added services. Even in eastern Europe, lower prices are difficult to achieve because "service comes at a premium and the locals don't have a tradition in dealing in securities," Mr Grafunder says. Therefore he argues that price is not the real issue. "We don't compete on price, we compete on quality." He defines this as a broad infrastructure, highly-qualified staff and specialised software systems. The bank's recruitment philosophy is simple; to hire the leading local expert in any new market. But Mr Grafunder admits that this is often impossible. In some countries there are no experts available.

The lack of qualified staff is one main reason why Deutsche has not yet established any local custody operations in eastern Europe, with the exception of Prague.

Deutsche Bank recently set up a subsidiary in Budapest, but Mr Grafunder has no specific plans to follow with a custody operation. He notes that several local banks, such as Bank Handlowy, Budapest Bank and International Moscow Bank, already offer competent local custody in the region, and Citibank is already there on the global level. Deutsche Bank will enter the market, too, only if it can outperform the best local provider.

Next year, Deutsche Bank's custody staff will analyse the other markets in eastern Europe, where custody volumes are still small, and decide whether to set up more local operations. "The questions we will ask are how big is our market share? And can we get the right staff?" Mr Grafunder says.

Global custody cannot develop at its own pace, but must follow as commercial banking operations are set up in new markets such as the countries of central and eastern Europe. So far, the custody operations are only in Prague, which is already seeing a return. All other markets are handled from the bank's global custody offices in Eschborn, an office park just outside Frankfurt. "We're keeping a very low profile in the Czech Republic at the moment."

The custodian is called first if a client faces a technical problem, says Mr Grafunder, who has 135 client support staff at Deutsche Bank's custody headquarters just outside Frankfurt.

Laura Covill

■ **Regulation:** by John Gapper

Regulators drag their feet

It is unlikely that regulations will be tightened soon because there is a lack of consensus

The fact that the UK is only just getting around to making custody an activity that requires authorisation is a reasonable indication of the importance that has been attached to regulation of global custody. Despite the trillions of dollars of assets involved, regulators have moved slowly.

In part, this is because of the extreme variance in local practice in safeguarding assets held with another party. While it appeared to be mere commonsense in Anglo-Saxon countries for banks to to segregate their clients' assets from their own, the opposite principle holds in Japan.

The result is that global custody still lacks stringent regulatory requirements. The US Securities and Exchange Commission has eased its regulations on custody of cross-border assets held by mutual funds following lobbying from the global custodians most strongly affected.

In August, the technical committee of Iosco, the international grouping of securities regulators, made a series of broad recommendations on ways to protect client assets. However, it emphasised that all regulators had to follow insolvency laws and traditions in casting regulations.

One of Iosco's main recommendations was for all regulatory authorities to recognise the benefits for investor protection and confidence in financial markets of effective mechanisms to protect client assets from the risk of loss, and the insolvency of local investment firms.

However, industry participants doubt whether they have heard the last on the subject from regulators. Indeed, some bankers say that if the inherent risks of custody were better reflected in regulations, it would help to ameliorate some of the cut-throat price competition in the industry.

"In all honesty, the issue has been hugely fudged by regulators," says Dick Freehan, division head of global institutional services in Europe and Asia for Bankers Trust, "A monster trauma has not hit the industry yet, and I think it requires that. I just hope it doesn't happen to us."

The UK approach to regulating custody emerged in the wake of the Robert Maxwell affair with the publication of a Securities and Investments Board consultation paper in August last year. This suggested that custody should be made an authorisable activity, and suggested regulatory standards.

The Treasury is now working on rules for the authorisation of custody companies. In practice, it is unlikely to mark a sea-change in regulation, since virtually all companiespractising custody, apart from some Personal Equity Plan administrators, are already authorised for other activities.

The SIB acted on concerns from bodies, including the Society for Practitioners of Insolvency, that client assets were not sufficiently segregated by law to prevent them being lost if a company collapsed. This concern was inflamed by initial doubts over client cash deposits when Baring collapsed.

These SIB standards are now being transformed into firm regulations by the relevant self-regulatory bodies, the Securities and Futures Authority, and the Investment Management Regulatory Organisation. However, the SIB standards have not turned out to be particularly onerous for the industry.

In particular, the possibility of separating client assets from those of a custodian by placing them in separate nominee companies was not regarded by the SIB as worth the disruption and cost involved. A cost-benefit analysis carried out by the board put the cost of implementation at £100m.

Separately, neither the SIB nor any other regulatory body has made an effort to devise capital adequacy rules for custodians related to the client assets held in custody. The existing UK regulations devised by Imro merely require companies to have capital of up to 13 weeks' expenses.

The principle behind this is that any custodian will have sufficient time to run down the business in an orderly fashion, and transfer custody to another institution, in case of trouble. Regulators argue that it would be impractical to make any form of capital charge in proportion to assets.

"It is inconceivable that any custodian could hold capital that could in any way match assets held in custody. We are talking about firms with billions of dollars in custody," says one official.

> 'A monster trauma has not yet hit the industry, and I think it requires that'

Regulators argue that it is better to insist on firms having adequate systems and controls.

In theory, the lack of capital adequacy requirements is not a problem because custodians act as agents rather than taking on any direct risks from movements in value, or losses, of securities. A similar approach to linking capital to operational expenditure is used for UK fund managers.

However, not all analysts agree with this approach. Simon Thomas, of the consulting firm Thomas Murray, says that the SIB review "walked away from the major issues facing the industry". He argues that the true risks inherent in cross-border custody are far higher than has been recognised.

"There are a large number of risks that are subterranean and have not been recognised at the moment. Regulators and custodians have failed to recognise that banks that issue payment instructions are de facto principals. They cannot maintain agency status if it goes wrong," says Mr Thomas.

Most custodians agree that they would in practice be forced to make up any loss caused by errors. Not only have US courts taken this view in cases of error related to securities lending, but it is a commercial necessity. "If we walked away, we could say goodbye to our reputation," says one.

This implies that – similarly to the case of potential losses affecting unit trusts managed by Morgan Grenfell Asset Management, where the group's parent Deutsche Bank stepped in to make good the loss – any global custodian faces huge potential liability for making operational errors.

Mr Thomas believes these risks are eventually bound to be reflected in capital charges levied on custodians in local markets where the risks are appreciably higher. These risks are currently only reflected in higher charges for custody services in markets with poor settlement systems.

He argues that these capital charges will be passed straight through to investors in higher charges by custodians, implying that investment banks that lack custody operations will suffer. He says this is one important reason for banks with strong balance sheets to specialise in custody.

For the moment, a lack of regulatory consensus among members of Iosco, together with differing local traditions, make it highly unlikely that a concerted push for tighter regulation will emerge rapidly. However, this could change if an equity market crash led to a custodial failure.

Yet the compression of pricing in the industry in the past five years has in effect eliminated any notion of pricing correctly for risk. That could come to be seen as an unfortunate omission by both regulators and custodians themselves if the subterranean risks of custody surface.

Securities lending has been tainted by association with the Mirror Group pensions fiasco

■ **Securities lending:** by Margaret Morris

An ill-deserved reputation

Despite slim margins, more institutions are lending. But there are risks

In the UK, simply mention the words "securities lending", to a pension fund trustee and the reply is likely to be, "We don't do securities lending".

Tainted by association with the Mirror Group pensions fiasco, securities lending has suffered from an ill-deserved reputation in the 1990s. As Ralph Vitale, senior vice-president of State Street Bank in Boston, says: "For the amount of money that can be made in securities lending, the risk should be as close to zero as possible." Mr Vitale's statement contains the two important nuggets of information that any institution – pension fund, insurance company, fund manager or unit trust company – should keep in mind about securities lending. First it is a low margin business; huge sums are not available for the making. And second, anyone engaging in securities lending, as with any investment management activity, should consider the risk/reward trade-off carefully.

Even with these caveats, securities lending – both as part of the global custody package and by customers using so-called third-party agents – is growing in the UK. The changes in the settlement of gilts and a growing understanding of the mechanics (and profits) of international securities lending have forced many UK institutions to rethink attitudes.

For one thing, a low interest-rate environment makes any investment institution look for ways to squeeze what profit it can from assets. One way to make assets work harder is securities lending, where stocks or shares are loaned to another institution – which needs them to, for instance, cover a failed trade or a short position. In return the lender receives an equal or greater amount of financial collateral, normally cash or securities, on which it earns a return.

Because increasingly, UK institutions use a custodian for the safekeeping of assets, the custodian bank is well placed to facilitate a securities lending programme, since it knows first what assets are available for loan. Simon Murray, a director of consultants Simon Murray, says: "All our requests for proposal (RFPs) to custodians ask for information about securities lending. And all of our clients are reviewing whether they should be in it."

Although unit trust companies have been allowed to engage in securities lending for several years, neither they nor UK pension funds are important operators in securities lending at home or abroad. "For very large insurance companies and quantitative asset managers, securities lending allows them the ability to sweat those assets. Now these institutions are looking at lending international assets," says Mr Murray.

Unfortunately for the UK custodians that service many of these clients, international securities lending was not one of the options on offer. But that is changing fast. The Royal Bank of Scotland, which had a small international programme, hooked up with an established international third-party securities lending agent, Robert Fleming Securities, at the end of last year. Royal Bank of Scotland gives clients a choice – either it or Fleming can handle international securities lending. It has been a hit with customers, according to Alison Clare, head of product management and marketing at RBS. The bank has picked up 10 new clients for international securities lending this year.

At Midland Securities Services, the action has not been on the international side as yet. But it has seen a "significant increase" in gilt lending, says deputy-director Steve Crockford. "We have 40 per cent of the gilt custody in the UK and account for at least half of the gilt lending." He attributes the change to the dematerialisation of gilts and the new settlement arrangements through the Central Gilts Office. As far as international goes, he admits that Midland has been a bit behind. To remedy the shortfall the bank has brought in international securities lender Wayne Burlingham from insurer Norwich Union.

No one sees much activity in UK equities for the moment, although once Crest is fully implemented, observers expect a rise in equity lending. The problem is not just the cumbersome process – in which shares must still only be lent through money brokers – but lending itself must have a stated purpose. And that purpose cannot include speculative activities such as short selling. The volumes of shares required just to cover failed trades does not make a market. "The demand just isn't there, so the margins don't justify the cost of a programme," says Mr Crockford.

For investment institutions and pension funds in the US, the story of securities lending is quite different. Most have had programmes in place for 10 to 15 years. While the market is deeper and more mature than in the UK, it has also had its fair share of trouble, particularly in 1994 when many custodial banks were badly hit by the seismic shifts in interest rates. The experience of lenders in the US has led many to consider more specifically the kinds of risks that they are running in securities lending.

To assess the risk/reward trade-off, many public and private pension funds in the US have been putting their securities lending programs through the type of performance analysis that they had in the past reserved for investment managers.

Mr Vitale says: "Performing risk-weighted return analysis is a step in the right direction. Securities lending is no longer simply a back-office activity. It is a hybridised investment management activity."

Risks run by investors involved in securities lending fall into three main categories: collateral risk, counterparty risk and operational or transactional risk. The one that causes the greatest grief is collateral risk. When an institution lends a security, the collateral it receives can range from cash (in some jurisdictions) all the way through to equities. Managing that collateral is the key to the return. It is also the security for the assets out on loan and must be monitored to make sure it is still worth as much as the loaned securities. Shortfalls in investment returns accounted for many of the headaches in the US in 1994.

Counterparty risk is, baldly, the risk that the counterpart institution, which has borrowed the securities, will go bankrupt. In practical terms, it means that if the borrower is a low-rated institution, a higher level of collateral will be necessary. And operational risk covers the gamut of technical problems involved in the entire transaction.

What performance analysis attempts to do is to quantify what portion of the return received from securities lending is attributable to these risks. At the end of the day it attempts to answer the question, "Are you, the lender, making an appropriate return for the risks you are running?"

According to Orrin Bargerhuff, of Bargerhuff & Associates, a Dallas-based performance analytics consultant, "the easiest test for a lending programme is return. If a programme is making 10 basis points more than anyone else in the market, it is running higher risk." State Street's Mr Vitale says: "If you are making an outsize return in securities lending, you are probably running far more risk than you know."

It is easier to separate returns now that US pension funds are beginning to move away from bundled custody and securities lending. In bundled pricing, both activities are done by the custodian, which offsets the income agains the cost of custody. However, during the custody price wars of the early 1990s, the true cost of each activity was obscured, as prices reached zero at a particularly cutthroat point. Now many clients are looking to find the best provider for each service on its own, paying two bills.

"In some cases, with the larger fund, we see multiple lending providers, which could include the custodian for one piece, an agent for another and a broker/dealer for yet another," says Mr Bargerhuff.

This move to multiple providers comes not only from a desire to understand the actual costs, but for large funds with a broad range of international securities lending, which may be looking for specialist lending agents as well. "You can't expect one bank to be as good at emerging markets lending as European major markets," says Mr Bargerhuff.

Outside of the US too, large institutional lenders are beginning to tackle the thorny issues of risk and return. At Securities Finance International, a London-based consultancy, a pilot project is under way to assess the risks and returns of international securities lending. "We have teamed up with Barrie & Hibbert, an Edinburgh-based risk consultant, to develop a method for analysing the risks and returns of a securities lending programme in a systematic and statistical way," says SFI managing partner Charles Stopford Sackville. It is firstly an aid to setting policy and then a process to monitor compliance with stated policy.

■ **Euroclear and Cedel Bank:** by David Cowan

Rivals eye each other closely

Both organisations have undergone changes as they prepare for even greater competition

Since their formation in the late 1960s, Euroclear and Cedel have eyed each other closely across the Ardennes, but in recent times there has been more of a competitive glint in the Cedel eye. Euroclear has always been the elder, the one with the biggest market share able to boast of its secure Morgan backing. Its younger sibling has always been the somewhat undisciplined rival, often getting market share because it was the only alternative.

All that started to change about eight years ago, when Cedel appointed André Lussi as its chief executive officer. Since then there has been a succession of resignations, sackings and management changes, often tainted by acrimony.

But this has been at the heart of the cathartic process by which Cedel Bank, now armed with a banking licence, has been transformed from the rotten borough of a handful of Luxembourg grandees into a tough international competitor which clearly now has its rivals in Brussels worried.

This is seen in the response by Euroclear, which has become more aggressive in a sedate kind of way. The appointment of Luc Bomans as chief executive officer has made Euroclear more client-driven, a little less like the civil service management mentality of old. There has been less reliance on assuming a market share of two-thirds and more on protecting that share, and Cedel Bank has been able to wrestle away some of it in important areas such as collateral management and repo.

Last year, the total value of securities transactions within the Euroclear system totalled $25,000bn, a 14 per cent increase on the year, and $10,000bn within the Cedel Bank system, a 35 per cent increase on the year. The other key figure is the value of deposits held within the systems, which in Euroclear stands at $1,94obn, a 10 per cent increase, while Cedel Bank exceeded the $1,000bn mark after an 18 per cent increase on the year.

Ignace Coombes, managing director and head of commercial division at Euroclear, states: "Yes, we've seen a different positioning by Cedel, they are doing more and more, but we come from a strong position, especially with the broker/dealer community. The indications are that Cedel wants to compete, to match what we do, but market share is still relatively stable. Maybe they are now trying different ways to challenge our client base."

Euroclear remains steadily dominant in broker-dealers, which Cedel Bank through its Liberty subsidiary is striving to break into. Cedel Bank, meanwhile, remains dominant in the global custody area, and in moving up the value chain have to ensure they do not alienate their natural constituency. Both organisations are seeking ways to capture the custody business further up that value chain.

Each has taken a different strategic direction, driven by quite different motivations. The Cedel Bank motivation is driven by opportunity, seeking to capitalise on their flexibility and responding to market changes. The Euroclear strategy is a defensive one, having had the lion's share of the market they are trying to fend off Cedel Bank with one hand and the local depositories with the other.

Both organisations are aware of the competitive threat of local Central Securities Depositories (CSDs), since they are seeking to bring processing back into their markets, with Sicovam, Intersettle and the German DKV being the most notable. André Lussi responds: "We see ourselves as complementary to the CSDs, we do not compete with them, rather we flow liquidity to their market and we administer the securities at the CSD."

A sensitive area has been the discussion over the new bridge agreement, building on the existing bridge linking the two of them. At present the bridge remains an overnight batch process, but it has always been acknowledged that this would become more of a continuous process in a new bridge. That has been delayed, and the two sides have yet to fully agree on how to proceed. In part, this is complicated by new in-house developments as both ponder the ultimate move to real-time processing.

Mr Coombes explains: "The new agreement has still to be agreed, there is no clear answer on this. We would be ready to implement a new bridge, but both parties have to be willing and to see a benefit of doing so. There are a lot of initiatives going on at Cedel and we're working on real-time solutions, so perhaps there is less desire to do it."

Euroclear has already embarked on an ambitious plan to create real-time, which will cost them more than $100m by the end of the decade. The aim is to become an all-singing, all-dancing central European processing hub, thereby hoping to force Cedel Bank into a niche position and take the European stage for themselves. Mr Coombes says: "The real-time project is progressing as planned and on schedule for the first quarter of 1998."

He is critical of the Cedel Bank approach, arguing: "We are taking an exhaustive approach. Cedel has a more fragmented approach, it is not integrated. We are evolving to real-time and everything will be included and integrated. They start with components, and they will face difficulties in integrating these into a real-time environment, so they will do more in a batch processing mode."

Cedel Bank feel they have a more flexible solution. Mr Lussi explains: "We are a customer-centric organisation and we have a network of links to domestic markets. Many customers and markets cannot accommodate real-time settlement. We prefer to talk about settlement as 'continuous'. The technology is on-line, real-time but the settlement process can therefore be real-time or batch. That responds to the different customers and different markets."

Ultimately the aim of both organisations is to hold collateral, and it is this which determines the strategy. The defensive element for Euroclear lies in keeping its lion's share of assets within the system, protecting the deposits. An analogy is in football where you play for a draw. The danger in this approach may be that if the opponents score then you end up in a very different game. Cedel Bank, like the CSDs, are very much on the attack.

■ **Latin America:** by Daniel Dombey

Case for reforms

Governments and security agencies are trying to modernise the sector

After the problems of 1995, Latin America has returned to favour among international investors, with healthy profits recorded this year in markets such as Mexico and Venezuela.

But for custodians, the Latin American market can be treacherous, raising the costs of securities settlements, exposing clients to risk, and undermining efforts to increase investor participation.

In many countries, custodians are hampered by restrictive regulations yet lack a framework of transparency and real time processing. The region's governments and security agencies are making separate efforts to modernise the sector but there is a long way to go.

In such circumstances, the custodian's role takes on new attributes. While margins remain slight, risk is considerable, and the custodian often places special emphasis on arguing international investors' cases for regulatory reforms to local authorities.

Yet custody in Latin America is dominated by familiar names. Bank of New York and State Street are among the chief custodians for foreign investors, with banks, including Bank of Boston, Citibank and Deutsche Bank, often serving as sub-custodians.

In Mexico, there are just five authorised custodians – Indeval, Citibank, Banamex, Bancomer and Inverlat – although Spanish banks BBV and Banco Santander, which have both recently bought local banks, may soon try to enter the market.

There are important differences between the three main markets of the region, Brazil, Argentina and Mexico. Of the three, Argentina is widely perceived as the most receptive to portfolio investors in terms of regulations, while Brazil's morass of regulations excites the most concern.

In Mexico and Brazil, a series of regulations limit foreign investment to certain share series, making it more difficult to settle customers' trades, while there are fewer restrictions of this kind in Argentina.

The result of such constraints are limits on liquidity and risky time lags on trades. Rather than just match up orders for the same company when executing trades, custodians have to match up the same series share.

"Though there has been some recent change, Brazil feels that its level of restrictions is important to maintain some control over the economy. Argentina places more emphasis on foreign investment and so is taking steps to make portfolio investment easier," says Lisa Linker, director of investor services for Latin America at Bank of Boston, which keeps about $7bn of securities in the region and reckons itself the chief sub-custodian in Argentina, Chile, and Brazil.

Mexico's case is a little different. While the country is eager to attract foreign investment, it has introduced and maintained restrictions on foreign investment to prevent the takeover by foreigners of domestic companies – a possibility which had worried nationalistic politicians.

In most of the Latin countries, custodians are pushing for ways to reduce risk and increase investor protection, such as stronger criteria for disclosure and stronger monitoring and enforcement against insider trading.

Such efforts have borne some fruit. There have been regulatory reforms in all the countries. Brazil has altered its regulations to allow securities lending. Mexico is about to widen permitted lending. The changes should help to increase custodians' margins and allow their clients to carry out larger transactions.

Furthermore, Argentina is carrying out sustained efforts to create a clearing house for the market, to facilitate delivery of securities, and to bring reporting closer to first world standards for international trades.

Brazil maintains a security-conscious framework for equity settlements, in which securities are blocked for two days until payment goes through.

For its part, since October 1994, Indeval, the Mexican securities depository institution, has taken over responsibility for the compensation and liquidation of shares. At present, Indeval does not take any accompanying risk – all trades are covered by credit lines extended to financial agents by Mexico's central bank.

"The fact that we now have a centralised system for shares and government and bank securities means that everyone has more information, and transactions can proceed more rapidly," says Dr Héctor Pérez Galindo, Indeval's chief executive.

The current system has greatly improved liquidity from the old days – a little over two years ago – when just before close of trade messengers used to arrive at the stock exchange building bearing hundreds of cheques. But there are still important caps on activity. For example, international banks are often barred by their own credit regulations from carrying out trades with local stockbrokers.

For that reason, Dr Pérez Galindo hopes that legislation will be approved next year to allow Indeval to become a clearing house taking risk on to itself. Such a step, which would take about a year to carry out and necessitate the division of Indeval, would allow many more financial agents to trade with each other, as well as freeing much of the capital at present left with the central bank as collateral for trades.

But though progress is being made, Mexico's future advances, like those of Argentina and Brazil are wrapped in uncertainty.

"Latin America has clearly passed the basic emerging stage," says Ms Linker of Bank of Boston.

PROFILE Midland Securities Services

Midland is no quitter

As fees for global custody have been shaved in recent years some leading banks have opted out altogether. Among those to quit have been J P Morgan, National Westminster and, most recently, Barclays which is in the process of selling its global custody business to Morgan Stanley.

Midland Bank is not among the quitters. Early this year, in partnership with Mellon Bank of the US, Midland won the contract to provide global custody for £45bn of assets of Prudential Portfolio Management (PPM). It was the largest, single outsourcing of investment administration ever completed in the UK and gave Midland critical mass with assets in custody of £300bn.

When HSBC took over Midland in 1992, the UK bank provided custody for just £40bn of assets. The growth since then is evidence of the group's commitment to this arm of its business. But, says Terry McCaughey, director of Midland Securities Services, it also reveals something more fundamental about group philosophy. It shows that HSBC/Midland perceives itself as a commercial bank.

Mr McCaughey believes that investment banks, being product-driven, fail to understand the true value of custody services. They do not see past the low fees. Commercial banks, which are relationship-driven, see custody as one way of cementing their relationship with a client. The service then becomes a concrete base for adding other services and thus developing the relationship.

Prudential's attitude to Midland/Mellon as its custodians, seems to bear out Mr McCaughey. Steve Cook, director of operations for PPM, will not divulge group strategy prematurely. However, he is willing to say that he hopes the contract will become a platform on which other services may be built.

The prima facie problem with Mr McCaughey's theory is that neither NatWest nor Barclays – nor J P Morgan, for that matter – can be regarded as other than commercial banks. His retort is that custody was integrated into the investment banking arms of NatWest and Barclays and that J P Morgan is repositioning itself more as an investment bank.

Midland's main UK competitors, he argues, are Lloyds and Royal Bank of Scotland. All three see custody as a core service.

Midland created Midland Securities Services in 1988 to concentrate its custody business which had hitherto been split among several divisions. Since Mr McCaughey came in with HSBC in 1992 his task has been to grow the core business.

While growth remains a priority Mr McCaughey now intends to develop a range of added-value products which will lead to the bank becoming an all-round "asset servicer". He says quite openly: "MSS won't be a pure custodian for much longer."

Already MSS is responsible for the execution-only stockbroking business Midland includes and for similar services on the private banking front. The most compatible products now for adding to custody services are securities lending and collateral management, cash management, foreign exchange and treasury functions, and repos.

Like custody before 1988 these other services are already on offer in different parts of the group. But they are more likely to flourish in a dedicated unit. A single unit is also more likely to win the budget increases necessary to support the development of more sophisticated products.

Major investment in technology is the key. Prudential's Steve Cook says the Midland/Mellon custody bid beat the competitors because it offered three factors: Midland's deep knowledge of the UK market; Midland's century-long relationship with the Pru; and Mellon's technology. Asked whether the bid would have succeeded without Mellon's technology, Mr Cook said bluntly: "No".


Terry McCaughey: intends to develop added-value products

MSS employs around 700 staff of whom perhaps 80 are on temporary contracts related to the introduction of Crest. When the electronic settlement system starts to operate those jobs will go. But Mr McCaughey is confident that his unit will not shrink in numbers. On the contrary, he is actively recruiting at present – a sign that he believes his development plans are fully backed by the board.

Christine Moir

■ **The role of consultants:** by David Cowan

Choosing a fast-track route

Consultants can give independent and objective advice, and provide new insights

No three words sound sweeter to the ears of a consultant in global custody than Request For Proposal (RFP). Each year there are a handful of custody contracts available, and a limited number of consultancy firms able to assist investment managers in finding the right custodian.

Consultants in global custody can aid the selection, but there is much work to be done, especially on the investor side, to ensure a healthy relationship. By buying into a consultancy the investor is tapping into a knowledge base, and a fast-track route to finding a custodian, but at a cost.

There are basically three routes the investor can take: do the whole thing yourself; hire a consultant to do it; or use a consultant to handle certain aspects of the RFP, or to review the decision once taken.

The route chosen will depend on the size of operation and the number of markets and instruments under consideration.

Curt Kohlberg, president of Kohlberg & Associates in Weston, Massachusetts, explains: "If a firm is small and uncomplicated, and if they have a lot of in-house expertise, then they can do it themselves. Usually the medium size to large players use consultancies. It is important that they get it right because there is so much money involved."

There are three elements to the selection process. The first is the assessment of risk, second, the technical requirements and, third, the relationship.

In selecting a custodian the investor is assuming a number of risks, ranging from custodian risk to which bank to use for local cash clearing, time involved in settling the trade and market risks. The investor should undertake most, if not all, of this research and credit analysis.

The technical and relationship assessment is where the consultant can really add value, based on work with other clients. These are the methodical tasks associated with data connection, both the automated and manual varieties, systems linkage, and reporting processes.

The investor still needs to know roughly where to look to get the best support, and this involves drafting out a rough Request For Proposal (RFP) before even considering calling a consulting firm. The better prepared the less the cost.

For a start, the investor can go to the Bank for International Settlements (BIS) for their reports, or to the International Society of Securities Administrators (Issa) and use their Clearing & Depository Risk Evaluation guide, a basic questionnaire which lists the requirements to be considered. Then there is information gathering relating to the markets, instruments and custody players, a great deal of which can be found at the BIS, in trade publications, and now on the Internet.

Having undertaken the research, the next important task is to build up a risk profile, and there is a check list of risks issues: definition of risk, liquidity, systemic, custodian/counter-party, payments systems, time-gap, cross-border delays, foreign exchange. The investor then needs to issue an RFP, which will cover these essential areas: a description of the organisation, a profile of the investment programme, a definition of the key terms used, basic information relating to custodian issues, the basic requirements of the custodian to be selected, description of services and functionality to be provided by the custodian, description of reporting, balancing and reconciliation between the investor and custodian, custodian systems description, custodian audit and regulation information, custodian insurance coverage, custody fees, a draft custody agreement. Having prepared the way it is time to call in the consultants, which itself involves a selection process, but at least you know what to expect. At this stage it is very much the old cliche of handing over the watch so the consultant can tell you the time.

■ **Derivatives:** by Samer Iskandar

Valuation a competitive tool

Financial institutions are turning to custodians for pricing derivatives

Nothing should worry financial risk managers more than a list of securities – or worse, derivatives – priced at their par value. More often than not, this means that no-one was able to find an accurate price for the security.

Although problems in the valuation of traditional financial instruments – such as shares and bonds – are becoming less frequent, this has not been the case for derivatives. As increasingly exotic products are traded, the sources of information on their pricing become less easily accessible or, in some extreme cases, non-existent.

As a last resort, back-office employees sometimes have no choice but to ask traders in the dealing room, or even the issuer of the product, for an indicative price – "not necessarily the most objective sources", one financial consultant commented.

Banks and financial institutions, therefore, are turning to global custodians – their traditional suppliers of market prices – for these services. And the custodians, although more familiar with the pricing of conventional securities, seem willing to rise to the challenge.

Observers say diversification into derivatives is a boon to custodians, which operate in a cutthroat environment where traditionally thin margins are shrinking further.

"The biggest issue facing custodians is the valuation of derivatives", said Andrew Lese, vice-president of Emcor, a US risk management advisory firm.

Ron Dembo, president of Algorithmics, a provider of financial risk management software, concurs. He also underlines the importance of risk management as a marketing tool. "In addition to the usual marketing tools – offering more services at lower prices – risk management allows [custodians] to differentiate their product."

Cedel Bank, the Luxembourg-based clearing bank, is pioneering this approach. Last month it launched an innovative product, Global Credit Support Service (GCSS), a real-time system for the management of collateral on over-the-counter derivatives trades, notably currency and interest rate swaps.

The philosophy behind the system is not new. It is directly inspired by the operations of the clearing houses of derivatives exchanges. However, Cedel insists GCSS "is not a clearing service, but a credit support system".

Depending on several variables – including the credit standing of counterparts, the level of market prices and volatility – the system constantly calculates the adequate level of collateral required to maintain an existing transaction throughout its life, several years in some cases.

But although GCSS is a welcome addition to risk management techniques in the derivatives marketplace, analysts believe the gap between the market's evolution and risk management systems is still widening. "The market evolves so quickly that keeping up with it is like running behind a train," said Heinz Binggeli, president of US-based Global Investment Risk Advisors.

Among GCSS's shortcomings is the fact that it handles trades on a bilateral basis. Each bank has to manage collateral on every trade entered into the system, with little allowance for netting – or offsetting trades that cancel each other's risk exposure. As a result, immobilised collateral is often larger than necessary.

GCSS does allow for some netting: when two institutions have several outstanding trades with each other, it will calculate collateral requirements on the net exposure. But since the system operates on a client basis – as opposed to a product basis – it provides no netting arrangement between mutually-offsetting trades that one institution might have with different counterparts.

Good quality custodial services seem to hinge on a combination of efficient netting procedures and accurate pricing techniques.

The absence of netting not only leads to inflated collateral requirements from clients, it also strongly affects the cost structure of the custodians, because they need to immobilise a proportion of their own capital as a buffer against potential default by their clients. Since, in a large community of clients, there always exist positions that offset each other's market risk, the net aggregate exposure of positions managed by a custodian is often significantly lower than the sum of the different exposures. Therefore, an enhanced ability to detect these trades would remove the need to immobilise capital against them, since gains on some clients' portfolios would offset the losses on others.

In addition to netting, accurate pricing of derivatives is also an important consideration for custodians. Because they determine the amount of its own capital a custodian needs to immobilise, pricing methods have a direct effect on profitability. On the one hand, unreliable pricing could lead to an increase in the default rate, if the custodian's estimate of adequate collateral is too low. On the other hand, overstating risk would lead to over-pricing custodial services.

Mr Dembo at Algorithmics believes that "estimating the most appropriate level of capital is the key to providing the best pricing". He warns, however, that "this is a difficult scientific exercise".

One important impediment to both netting and accurate pricing of complex instruments is the lack of understanding of clients' ultimate aims. One observer points out that if the custodian knew that a particular trade was purely a hedge against a cash position in the underlying market, it could, in theory, require less collateral than on an identical trade set up for purely speculative reasons.

Mr Dembo is convinced that in many cases, "if custodians knew the risk profile of their clients better, they would be able to price their services more competitively".

■ **Management of sub-custodians:** by Margaret Morris

The art of buying peace of mind

Setting up a network requires crucial decisions by custodians and also by clients

Alison Clare: the custodian has to shelter the customer

When an investment business buys global custody, it is buying peace of mind – and that means no more sleepless nights over failed trades in Swaziland. Ideally, says Alison Clare, head of product manaagement and marketing for Royal Bank of Scotland, "the global custodian has to be able to shelter the customer".

But given the number of markets – up to 75 in some cases – and the immature infrastructure within some of the emerging markets, the global custodian cannot take financial and legal responsibility for all events that occur after a trade instruction reaches its doors.

For global custodians, how to set up a sub-custodial network, which banks to choose as agents and when to expand the network are crucial decisions. But clients are just as interested in these matters. A smoothly functioning sub-custodial network means that losses from failed trades or missed corporate actions just do not happen. Keeping those wheels greased requires a big effort. The biggest source of friction between client, global custodian and sub-custodian remains how to deal with exceptional situations.

There are two routes to follow in setting up a sub-custody network. One is for the global custodian bank to use its own branches or subsidiaries to perform custody within local markets. This strategy, pursued to varying degrees by Citibank and Chase Manhattan Bank, require a historical presence in most of those countries. A bank does not arrive to set up a sub-custodian; it usually had other domestic banking business there already. For Citibank in particular, providing sub-custody has proved something of a speciality, to such an extent that in areas like Latin America, many other global custodians use their network for sub-custody. The bank's rising credit rating has helped it win customers that would rather deal with a well-capitalised international bank than a thinly capitalised local operator, however efficient.

The other route, followed by more global custodians for fairly obvious reasons, is simply to choose the best agent bank within each market. This is a complex and ongoing process, with yearly visits and constant monitoring and evaluation procedures. "Every custodian is prepared to switch agents quickly within a market; there is always a back-up agent in place," says Paul Burgess, manager of the sub-custodial network for Lloyds Bank. And some large custodians will use more than one agent in a country simply because one bank could not handle the volume. In some major markets, says Mr Burgess, more than one sub-custodian is usual. He cites the US, Germany and Japan as markets where Lloyds has more than one agent.

Even for a bank with access to a relatively large sub-custodial network, as Midland has with its associated bank, Hong Kong Bank in Asia, the best in class argument holds. Says Steve Crockford of Midland Securities Services: "We look at Hong Kong Bank just as we would any other agent. We get no preferential treatment because we are part of HSBC Holdings and we expect none. They have to meet our standards and be the best provider in the country."

The ability to switch sub-custodians is the most often cited as the rationale behind using an agent network. But James Economides, managing director, global custody at Citibank, explains that the proprietary network brings other deeper advantages. "When you use your own branches, you are assured that the quality standards are the same across the network and that the technology used is the same. And while that may not be any more advantageous than using SWIFT messages for trade instructions, it is very helpful when it comes to receiving corporate action information," says Mr Economides. Although Citibank offers custody in 57 countries, only 45 are Citibank branches, but, says Mr Economides, "98 per cent of the volume is through Citibank."

Another way to organise a sub-custody network is to use regional custodians. Citibank has recently organised three regional hubs in Asia, Europe and the Americas to streamline service.

But even for those banks that use agent banks, some custodians such as Standard Chartered Equitor in Asia and Citibank in Latin America offer a regional service, with one legal contract for 10 to 14 markets and consolidated corporate actions feeds.

Global custodians have been competing in recent years for the contractual services they offer customers. From the ubiquitous contractual settlement to the controversial contractual corporate actions, these services ostensibly protect the customer from any problems encountered within the sub-custody market. "It is very important that customers understand exactly what is possible in the markets in which they are choosing to operate," says State Street's executive vice-president Jacques Philippe Marson. "We do not treat all markets alike." State Street offers contractual settlement and income – where the customer is assured of credit (or debit) on transaction date and dividends and income on pay date whether the trade has actually settled or the income paid – in all established markets, most maturing markets and few emerging markets. "It is simply too risky," says Mr Marson.

Customers are offered contractual services at no extra cost, but particularly in the case of contractual tax – where tax reclaims are paid on a schedule, whether the tax authorities have or have not refunded – or corporate actions, which indemnifies the customer against the cost of not knowing about a distribution, vote, rights issue or other corporate action, the global custodian is running a high or even open-ended risk. Simon Murray, of consultants Thomas Murray, says that it is unfair to expect a custodian to offer these services without a cost. "And if they do offer, say contractual corporate actions, then you have to ask yourself, how are they paying for it?" says Mr Murray.

Interestingly, even though contractual settlement is almost *de rigueur*, most custodians have at least some clients that want actual settlement instead, at least in some markets. Even though cash management should theoretically be easier to control because the customer knows exactly when cash will be coming into his account, if a trade fails for instance because the original trade instruction was incorrect, then there is a possibility of a reverse which can cost the customer in excess of the original payment. Also some large customers have found that in some markets, trades actually settle before the contractual date, so by reverting to actual settlement in those markets, they come out ahead.

PROFILE **Morgan Stanley**

A banking enigma

Among the world's leading institutions in global custody, Morgan Stanley remains an enigma.

Unlike almost all of its competitors, Morgan Stanley is an investment bank, not a commercial or trust bank. Thus, the move to custody of client assets was not a natural progression into a new business as it was for, say, Chase or even Brown Brothers Harriman.

Moreover, its push into custody came in the late 1980s making it a relative newcomer to the business. Even now, its global custody assets are only a tenth of those of Chase, the industry leader.

Yet, Morgan Stanley says its custody operations are enormously profitable and return on capital for custody and related services at least equals that of other bank activities. And Morgan Stanley is understood to be in talks to acquire the global custody operations of Barclays Bank, although its top officials demur when the question is put to them.

Why Morgan Stanley has chosen to be in a business which has been shunned by other investment banks, and how it has managed to make money where others have failed remain open questions. Goldman Sachs, for instance, a close competitor of Morgan Stanley in many other businesses, made a public effort to enter the custody business and then quickly faded away.

The origins of the investment bank's business are in the Trade Automated Processing System (Taps) which it developed in the mid-1980s as a broker-dealer support system. It was a kind of customised custody-cum-record-keeping system which, critically, had a multi-currency capability.

"We realised that capability could be translated to a custody business," says David Newman, head of European global custody. The system emerged just before US institutional investors began to diversify their portfolios into non-domestic securities, first bonds and later equities.

Morgan Stanley's strategy, Mr Newman says, has been to build a "seamless continuum" from the purchase of a stock, clearing and settlement of the transaction, recording the valuation of the security, using it as collateral for loans or the outright loan of the stock itself to the eventual sale of the security and the banking or re-investment of the proceeds.

The secret of the operations profitability, consultants say, is that Morgan Stanley has been able to figure out how to take a fee from every stage of a securities transaction, and preferably from both parties to that transaction.

The custody business has also bolstered Morgan Stanley's prime brokerage business, which has come of age with the emergence of a hedge fund industry on both sides of the Atlantic. Prime brokerage effectively means providing a back office/financing arm for hedge funds or other investors who use their existing portfolios to leverage future investments.

Morgan Stanley has also used its own fund management division to bolster the profitability of its custody business.

Securities in its own portfolios can be loaned to custody clients, earning a turn for both sides out of which the investment bank takes a cut as well, consultants say.

"They have always been very good at technology," says Richard Schwartz, partner at consultants Lee Schwartz Associates.

Morgan Stanley officials privately acknowledge that its ability to provide a service at every juncture has made its custody operations profitable, while larger competitors have fallen by the wayside. However, the bank believes custody could be more profitable still.

Morgan Stanley has eschewed the strategy of competitors such as Bank of New York which view global custody as a "commodity" service that can only be profitable when offered on a very large scale. Instead, it has concentrated its sales on those to whom it can sell lots of services.

It has pledged "upwards of $100m" for upgrading technology in the next few years.

At the heart of Morgan Stanley's push into global custody lies the expectation that equity investment worldwide – and in Europe in particular – is about to boom.

Morgan Stanley is convinced that there will be much more demand for "passive" investments – investments in stocks which mimic key indices such as the FTSE 100. These portfolios are particularly attractive for custodians because of the potential they offer to build stock lending fee income.

But there is another goal. Global custody is a business that does not require a large balance sheet and which can provide stable income when securities markets are volatile. Morgan Stanley is anxious to divorce its share performance from those of some of its peers with more volatile earnings. Building a core business with stable earnings is aimed at addressing that issue.

But why then, should Morgan Stanley wish to acquire Barclays?

Morgan Stanley officials refuse to be drawn on the talks. However, consultants note that custody of the Barclays Global Investors passive portfolios – the world's largest – would be a feather in the bank's cap. Also, it would give the bank a presence in the key UK pension fund market where it now has a limited share.

Norma Cohen

■ **Corporate governance:** by William Lewis

Investors get tough

US investors are the main drivers of the new activism in Europe

These are exciting times for those involved in the growing corporate governance market in Europe. Several high profile clashes in recent months between companies and shareholders have led to speculation that European markets are catching up with the highly developed corporate governance industry in the US.

In Italy, Olivetti, the Italian technology group, has come under pressure from London-based institutional investors, following the controversial replacement of its chief executive. In France, small shareholders in Eurotunnel may yet reject the financial structuring put together by the company's management and main bankers.

And in the UK, the most developed corporate governance market in Europe, there have been several examples of institutional investors taking a tough line with underperforming companies and also companies at which executives' bonus plans are inappropriately structured.

"Corporate governance has become an integral part of City life," says Anne Simpson, joint managing director of Pirc, a London-based corporate governance consultancy.

Sir Stanley Kalms, chairman of Dixons, the electrical retailer, is a critic of bureaucratic procedures and says that while corporate governance is an industry, it is "running out of control".

If the trend continues, and European institutional investors develop their corporate governance activism in the same way as US investors, institutional shareholder clients are likely to become increasingly keen on global custodians exercising their proxies at company meetings.

Some custodians see corporate actions and proxy voting as part of the package of services which a sub-custodian takes on when a contract is negotiated. However, other custodians who do not offer the same package are worried that clients will begin demanding free voting.

"Different custodians are taking different approaches," says Corinna Arnold, director of global shareholder service at the Investor Responsibility Research Center in Washington, DC. "They are not very thrilled about it, but it is part and parcel of the job".

One of the main drivers of the new activism in Europe has been US investors holding shares in European companies. Since 1988 the US Department of Labour has interpreted the Erisa laws, which set out the rules under which US pension schemes are administered, to mean that there is an obligation to scheme members to exercise their rights at companies at which they have a stake.

As a result custodians say that US pension funds vote almost all the time and on every issue laid before shareholders by US corporations.

In July 1994, the US Department of Labor clarified the obligations of some US pension funds to exercise their votes abroad in the same way as they do in the US.

Investors based in the US have also been playing active roles in shareholder revolts at companies based in the UK and elsewhere in Europe.

For example, US investors initiated the process which led to Maurice Saatchi and Charles Saatchi, founders of Saatchi & Saatchi, leaving the advertising agency. The California Public Employees' Retirement System, Calpers, the largest public pension fund in the US which is known for its corporate governance activism, has announced its intention to become more active in the UK and in other European markets.

With this increasing pressure from US investors, UK investors are becoming more active. Twelve months ago the National Association of Pension Funds, whose members have £300bn under management, told their institutional shareholders they have a duty to vote at companies' annual meetings to ensure they are acting as responsible investors.

A poll of fund managers found that only 28 per cent voted regularly, against 32 per cent who voted only on contentious issues and 21 per cent who never voted. With the Labour party promising to introduce legislation to force funds to vote, the NAPF also warned that unless pension funds begin voting regularly they could be forced to do so.

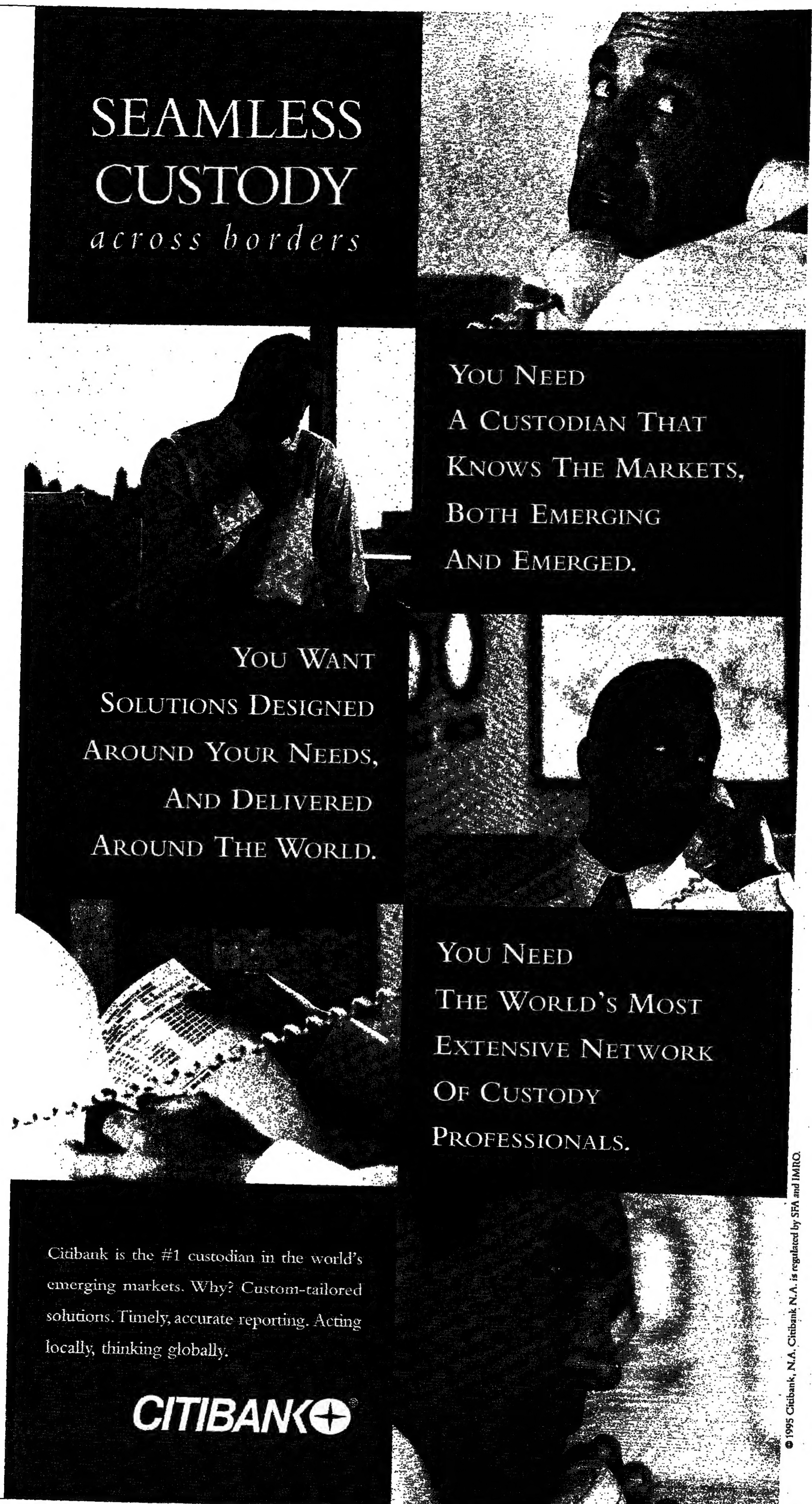
European investors have argued that voting is too expensive and too time consuming, but Ms Arnold says that custodians, having come under pressure to provide global proxy voting services for their US Erisca accounts, have "developed systems that now allow them to offer these services to all of their clients – and most certainly to those clients who demand it.

"This has meant that those investors who wish to receive global proxy ballots and to cast their votes can now do so, and growing numbers are taking advantage of that fact," she says.

Top 15 global custodians

		Worldwide custody assets	
	Bank	Total ($m)	% of total custody assets
1	Chase Manhattan	1,006,000	30.3
2	Citibank	567,000	50.5
3	Bank of New York	494,000	15.9
4	Deutsche Bank	457,000	66.3
5	State Street	369,900	15.1
6	Bankers Trust	369,000	24.6
7	Bank of Tokyo Mitsubishi	261,384	97.9
8	Brown Brothers Harriman	250,000	79.4
9	Barclays Bank	167,225	55.8
10	ABN Amro Bank	152,000	55.7
11	Royal Trust Corp of Canada	117,673	40.9
12	Morgan Stanley Global Custody	102,000	80.3
13	Société Générale	100,000	41.7
14	Northern Trust	92,800	14.5
15	Midland Securities Services	88,815	22.7

Source: Institutional Investor, September 1996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